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No. 01-

IN THE

Supreme Court of the United States

TACO BELL CORPORATION,

Petitioner,

v.

WRENCH LLC, JOSEPH SHIELDS, AND THOMAS RINKS,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Copyright Act secures to the copyright holder the right to be paid the reasonable value of another's unlawful use of his work, and thus, preempts an equivalent state-law right claimed under an implied-in-fact contract?

PARTIES TO THE PROCEEDING AND CORPORATE DISCLOSURE STATEMENT

The only parties in the proceeding are the petitioner and respondents listed in the caption.

Taco Bell Corporation is a wholly owned subsidiary of Tricon Global Restaurants, Inc. ("Tricon"), a company which is publicly traded on the New York Stock Exchange. Southeastern Asset Management, a publicly held corporation, owns 14% of Tricon's stock.

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PETITION FOR A WRIT GF CERTIORARI

Petitioner, Taco Bell Corporation ("Taco Bell"), respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Sixth Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App. 1a-27a) was entered on July 6, 2001, and is reported at 256 F.3d 446 (6th Cir. 2001). The order denying the petition for rehearing and rehearing *en banc* (App. 62a) was entered on September 13, 2001, and is not reported. The opinion of the district court (App. 28a-61a) granting summary judgment to Taco Bell was issued on June 10, 1999, and is reported at 51 F. Supp. 2d 840 (W.D. Mich. 1999).

JURISDICTION

The opinion and final judgment of the court of appeals were entered on July 6, 2001. The court of appeals denied Taco Bell's petition for rehearing and suggestion for rehearing *en banc* on September 13, 2001. The Sixth Circuit granted Taco Bell's motion for stay of the mandate on October 9, 2001. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The relevant provisions of the Copyright Act, 17 U.S.C. §§ 102, 103, 106, 301(a)-(b), and 504, are reprinted in App. 63a-68a.

STATEMENT OF THE CASE

A. Statutory Background

The federal Copyright Act protects "original works of authorship fixed in any tangible medium of expression," 17 U.S.C. § 102(a), including compilations and derivative works, *id.* § 103(a). Section 106 of the Act grants the owner of copyright "the exclusive rights" of reproduction, adaptation, publication, performance, and display of the copyrighted work. *Id.* § 106; H.R. Rep. No. 94-1476, at 61-63 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674-76.

Prior to 1976, an "anachronistic, uncertain, impractical, and highly complicated dual system" of state common law and federal law regulated works within the scope of the Copyright Act. *Id.* at 129, *reprinted in* 1976 U.S.C.C.A.N. at 5745. Determined to remedy this problem by instituting "a single Federal system" to regulate copyright, *id.*, Congress enacted 17 U.S.C. § 301, which states that:

> all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of

> authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 ... whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

B. Statement Of Facts

This is a tale of two dogs. Beginning in 1997, Taco Bell's commercials featured a live, talking Chihuahua, who traveled the city streets, searching for Taco Bell's Mexican food products and proclaiming, "Yo quiero Taco Bell." The outside advertising agency that created the campaign first proposed a commercial featuring a Chihuahua to Taco Bell on June 2, 1997. App. 5a. The creative directors for the Taco Bell account at the agency have both testified that their inspiration for the commercial came from a run-in with a live Chihuahua (like the one used in the commercial), "trotting down the street, with no master or human intervention, 'on a mission.'" *Id.*

The other dog is a copyrighted cartoon character, "Psycho Chihuahua," "a clever, feisty dog with an attitude; a self-confident, edgy, cool dog who knows what he wants and will not back down." App. 2a. Respondents Thomas Rinks and Joseph Shields created Psycho Chihuahua in 1995 and market it through respondent Wrench LLC. In June 1996, Shields and Rinks met two Taco Bell employees at a trade show. Those employees had responsibility for developing a program for licensing the Taco Bell brand name for products such as shirts and caps that are sold in retail channels; neither worked for Taco Bell's marketing department, which oversees the company's advertising. Respondents were informed and understood that the marketing department had to approve any use of Psycho Chihauhua by Taco Bell. Nonetheless, respondents claim that Taco Bell impliedly promised that if Taco Bell used Psycho Chihuahua, or ideas and concepts

based on that character, Taco Bell would pay respondents "something."

Over a period of several months, respondents delivered numerous copyrighted works to Taco Bell in an attempt to convince Taco Bell to use the Psycho Chihuahua character in marketing its food. App. 2a-6a. One of the Taco Bell employees (Alfaro) promoted Psycho Chihuahua within Taco Bell, and met with respondents and their licensing agent to develop a formal presentation featuring Psycho Chihuahua to Taco Bell's marketing department. *Id.* at 2a-4a. Before that presentation could be given, Alfaro learned that Taco Bell was already planning to use a Chihuahua in a commercial, and he forwarded Psycho Chihuahua materials to the marketing department. The marketing department in turn forwarded them to the advertising agency, which received them sometime on or after June 28, 1997, more than three weeks after it had presented its own Chihuahua commercial concept to the company. *Id.* at 5a-6a. Taco Bell launched a national campaign featuring Chihuahua commercials in December 1997, and respondents brought suit in district court in January 1998.

C. District Court Proceedings

In their complaint, respondents asserted that Taco Bell's spokesdog was a knock-off of their copyrighted cartoon character. Notwithstanding the fact that all of the materials shared with Taco Bell were copyrighted, respondents only alleged a number of state-law claims—including claims for breach of an implied-in-fact contract, unjust enrichment (*i.e.*, quasi contract or contract implied-in-law), conversion, missappropriation, and unfair competition. After dismissing the unjust enrichment claim as preempted by the Copyright Act, the district court permitted discovery on four state-law claims: breach of implied-in-fact contract, conversion, misappropriation, and unfair competition. App. 7a, 37a.

After discovery closed, Taco Bell moved for summary judgment on, *inter alia*, the ground that the remaining state-law claims were preempted by the Copyright Act. In resolving that defense, the district court applied the two-pronged test universally used in the lower courts for determining whether state law is preempted under section 301 of the Copyright Act: whether "(1) the subject matter of the claim falls within the subject matter of copyright; and (2) the rights protected by the state law claim are equivalent to any of the exclusive rights granted by the Copyright Act." App. 43a. "To satisfy the second prong of the copyright preemption analysis, a state law claim must require proof of an extra element which makes the claim 'qualitatively different' from a copyright infringement claim." *Id.* at 44a.

The district court had concluded in an earlier order that the ideas and concepts that were the bases of respondents' state-law claims met the first prong of the preemption test. App. 42a. On the equivalency prong, the district court declined to embrace the sweeping conclusion that all implied-in-fact contract claims are preempted. Instead, the district court "examine[d] the precise nature of Plaintiff's implied-in-fact contract." *Id.* at 43a. Noting that, "[a]t oral argument, Plaintiffs' counsel stated that the promise which Taco Bell allegedly breached was that 'if Taco Bell used Wrench's concepts and ideas, [it] would pay for them,'" *id.* at 50a (second alteration in original), the court concluded that "[t]he rights Plaintiffs are asserting are equivalent to rights under the Copyright Act because they are based upon Taco Bell's reproduction or use of Plaintiffs' ideas for creation of derivative works," *id.* at 50a-51a. The district court thus ruled that the claim for breach of an implied-in-fact contract was preempted by the Copyright Act. *Id.* Because the remaining three state-law claims were predicated on the implied-in-fact contract, *id.* at 37a, the district court ruled that those claims were preempted as well, *id.* at 38a, and granted summary judgment to Taco Bell, *id.* at 61a.

D. Decision Of The Court Of Appeals

The Sixth Circuit reversed, holding that the implied-in-fact contract claim was not preempted. App. 21a. The court of appeals applied the same preemption test used by the district court, holding that state-law claims will be preempted if (1) the materials at issue are within the subject matter of the Copyright Act and (2) the claim seeks to protect rights that are "equivalent" to the exclusive rights defined by the Copyright Act, 17 U.S.C. § 106, App. 9a, such that "the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights," *id.* at 14a. Like the district court, the court of appeals held that the equivalency prong of the preemption test requires proof of "an extra element . . . instead of or in addition to the acts of reproduction, performance, distribution or display . . . , provided that the extra element changes the nature of the action so that it is qualitatively different from a copyright infringement claim." *Id.*

Applying the first prong of the preemption test, the Sixth Circuit agreed with the district court that the ideas and concepts that respondents claimed were covered by the implied-in-fact contract were within the subject matter of the Copyright Act. App. 13a. On the second prong, the court of appeals did not apply the same nuanced analysis used by the district court. Rather, it concluded that the claimed contract rights were not equivalent to the rights protected by the Copyright Act because the breach-of-contract claim included an "extra element," namely, "the promise to pay." According to the Sixth Circuit, that extra element "change[s] the nature of the action so that it is qualitatively different from a copyright infringement claim." *Id.* at 15a. The Sixth Circuit stated that the alleged contract right under state law "is not abridged by an act which in and of itself would infringe one of the exclusive rights granted by § 106, *since the right to be paid for the use of the work is not one of those rights.*" *Id.* (emphasis added). In support of this conclusion, the court of

appeals reasoned that state law permits "recovery of the reasonable value of the services rendered," *id.*, but that "[t]he remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work," *id.* at 16a. Accordingly, the Sixth Circuit held that implied-in-fact contract claims are (with limited exception) outside of the preemptive scope of section 301. *Id.* at 17a-18a.

REASONS FOR GRANTING THE PETITION

This case involves a substantial conflict between the Sixth Circuit and the Second, Seventh, Eighth, Ninth, and Tenth Circuits on an important issue of federal law. The Sixth Circuit concluded that the Copyright Act does not permit a party whose exclusive rights under section 106 have been violated to seek damages for the reasonable value of the uncompensated use of that party's works. That holding is in square conflict with the decisions of the other five courts of appeals, each of which unequivocally hold that the Copyright Act does protect the right to seek damages for the reasonable value of the use of protected works.

The consequences of this split are significant. The question of remedies not only is of fundamental importance in cases brought directly under the Copyright Act, but also is critical in preemption cases like this one, because the issue of whether a state right is "equivalent" to the federal rights protected under the Act depends on a comparison of the remedies available to enforce those rights. The Sixth Circuit's misconception of the rights protected by the Copyright Act substantially undermines the federal policy embodied in the Act. It creates the untenable result that a plaintiff who unsuccessfully proposes that a company use its copyrighted works may then bring an implied-in-fact contract claim that the company is bound to pay him the reasonable value of using not his work but any *ideas* that are allegedly related to his copyright, even though federal law protects only

expression and not ideas. See 17 U.S.C. § 102(b). Additionally, because the decision below upholds state law claims that other circuits would have declared to be preempted, the national uniformity expressly sought by Congress in section 301 of the Copyright Act will be undermined. As such, the generally strong interest in upholding both congressional intent and the supremacy of federal law coincides with the strong policy interest in ensuring that the law covering copyright be free from the vagaries of state law. This Court should grant certiorari in order to resolve the conflict between the Sixth Circuit and the Second, Seventh, Eighth, Ninth, and Tenth Circuits and to ensure the national uniformity necessary in copyright law.

I. THE SIXTH CIRCUIT'S HOLDING CONFLICTS WITH THE DECISIONS OF NUMEROUS OTHER COURTS OF APPEALS.

Copyright Act preemption is not limited to state-law rights that are *identical* to those protected by the Copyright Act; it broadly encompasses all state-law rights that are "equivalent." 17 U.S.C. § 301(a). Section 301 preempts state-law claims if "the work is within the scope of the 'subject matter of copyright'" and "the rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright as set out in 17 U.S.C. § 106." *Ehat* v. *Tanner*, 780 F.2d 876, 878 (10th Cir. 1985). The question of equivalency, as the Sixth Circuit acknowledged, is whether "[t]he right defined by state law [would] be abridged by an act which in and of itself would infringe one of the exclusive rights." App. 14a. That analysis requires a comparison of the state and federal remedies to enforce the rights at issue:

> [I]f an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display *in order to constitute a state-created cause of action*, there is no preemption, provided that the extra element *changes the nature of the action* so that it is

> qualitatively different from a copyright infringement claim.

Id. (emphasis added). Accord *Rosciszewski* v. *Arete Assocs.*, 1 F.3d 225, 229-30 (4th Cir. 1993); *National Car Rental Sys., Inc.* v. *Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 431 (8th Cir. 1993); *Computer Assocs. Int'l, Inc.*, v. *Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992); *Del Madera Props.* v. *Rhodes & Gardner, Inc.*, 820 F.2d 973, 976-77 (9th Cir. 1987), *overruled on other grounds*, *Fogerty* v. *Fantasy, Inc.*, 570 U.S. 517 (1994). In conducting the analysis of equivalency, the Sixth Circuit fundamentally misconstrued the Copyright Act and created a square and important conflict with five other courts of appeals. The court declared that the Copyright Act does not secure "the right to be paid for the use of the work," and that the "expectation of compensation ... is an element not envisioned by § 106." App. 15a, 20a. Whereas Michigan law entitles respondent to "recovery of the reasonable value of the services rendered" for breach of the claimed implied-in-fact contract, *id.* at 15a, the court held that "[t]he remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work," *id.* at 16a.

That ruling is flatly contrary to the holding of every other court of appeals that has addressed this issue. As the Second Circuit has concluded, after a thorough review of the case law, the Copyright Act "permits a copyright owner to recover actual damages, in appropriate circumstances, for the fair market value of a license covering the defendant's infringing use." *Davis* v. *Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001).[1] See also *Kleier*

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[1] The Sixth Circuit cited *Business Trends Analysts, Inc.* v. *Freedonia Group, Inc.*, 887 F.2d 399, 406-07 (2d Cir. 1989), to support its claim that the Copyright Act does not permit damages for the reasonable value of the defendant's unlawful use of the plaintiff's work. *See* App. 16a. But the Second Circuit, in concluding that the Copyright Act *does* permit damages for such use, has explained that *Business Trends* did not deal with recovery of "'actual damages'" under section 504 of the Copyright Act; instead, it dealt only with the

Adver., Inc. v. *Premier Pontiac, Inc.*, 921 F.2d 1036, 1039-40 (10th Cir. 1990) (concluding that Copyright Act permits actual damages, including the license fees that should have been paid or profits from the use); *Deltak, Inc.* v. *Advanced Sys., Inc.*, 767 F.2d 357, 360-61 (7th Cir.1985) ("The value of the infringer's use is a permissible basis for estimating actual damages."); *Sid & Marty Krofft Television Prods., Inc.* v. *McDonald's Corp.*, 562 F.2d 1157, 1174 (9th Cir. 1977) (concluding that damages under the Copyright Act could be equal to either the value of the use of the works or the profits from the use); *Nucor Corp.* v. *Tennessee Forging Steel Serv., Inc.*, 513 F.2d 151, 152, 153 & n.3 (8th Cir. 1975) (concluding that defendants could be liable under the Copyright Act for the "fair value," *i.e.*, the "market value," of the works at issue). Cf. *Alcatel USA, Inc.* v. *DGI Techs., Inc.*, 166 F.3d 772, 789 (5th Cir. 1999) (concluding that state-law misappropriation claim was "equivalent" to rights under the Copyright Act because "under circumstances in which a work has been granted copyright protection—such as . . . in the instant case—the time, labor, skill, and money expended by the author in creating the work are necessarily contemplated in that copyright"). Consistent with the general principle that the essence of copyright is the right to exclude persons from using one's protected works, see *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127 (1932),[2] these courts have concluded that the right to be paid for use of one's copyrighted works is an

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separate remedy of recoupment of the "infringer's profits." *Davis*, 246 F.3d at 161-64.

[2] As this Court explained in *Fox Film*:

> The statute confers upon the author . . . the exclusive right for a limited period to multiply and vend copies and to engage in the other activities described by the statute in relation to the subject-matter. . . . The owner of the copyright, if he pleases, may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property.

286 U.S. at 127 (citation omitted).

essential right under the Copyright Act, see, *e.g.*, *Davis*, 246 F.3d at 172.

The Sixth Circuit's error infected its preemption analysis and caused it to uphold an implied-in-fact contract claim that is in clear conflict with federal law. If the court of appeals had followed its sister circuits and recognized that the rights of reproduction, adaptation, publication, performance, and display guaranteed under section 106 are enforceable by a damages cause of action to recover the reasonable value of the use of the work, it could not have reached the result it did. To be sure, the state-law cause of action would still have required proof of an element that the Copyright Act cause of action does not (a promise to pay), but this extra element would not have "change[d] the nature of the action so that it is qualitatively different from a copyright infringement claim" for the same kind of damages. App. 15a.

Here, the act alleged to have violated respondents' rights under state law was Taco Bell's improper use of material within the subject matter of the Copyright Act. Despite the extra element of a promise to pay necessary to prove the contract claim, "the right defined by state law [would] be abridged by an act which in and of itself would infringe one of the exclusive rights" granted by federal law. App. 14a. Other courts of appeals determining equivalency under section 301 all recognize that state law requiring proof of "extra elements" is nonetheless preempted if the same acts would also give rise to a claim of copyright infringement. See *Rosciszewski*, 1 F.3d at 229-30 (holding preempted a claim that required the additional elements of unauthorized use of a computer and false pretenses, larceny, or conversion); *Computer Assocs.*, 982 F.2d at 717 (additional elements of intent or awareness would not alter preemption analysis); *Del Madera*, 820 F.2d at 976-77 (holding preempted a claim that required additional proof of breach of fiduciary duty and inducement of breach). As the Fifth Circuit concluded in *Alcatel*, the fact that a state-law claim

had an additional element, such that "an unauthorized act of reproduction would violate copyright law but would not, in itself, offend the . . . state law," is irrelevant. 166 F.3d at 789. One cannot use "reverse engineering" to conclude that a state law right that in some respect is *narrower* than copyright law is somehow preserved—despite the fact that the same essential act that violates state law likewise violates the rights preserved under the Copyright Act. *Id.*

The need for a discriminating preemption analysis is especially critical with regard to state-law contract claims concerning matters within the scope of the Copyright Act. It is undisputed that the Copyright Act does not forbid enforcement under state law of the specific terms of licensing agreements or similar contracts. The rights created by such agreements (such as price and/or scope or duration of use) arise from a meeting of the minds of the parties and are not equivalent to the exclusive rights granted by the Copyright Act. Thus, for example, a state-law action to enforce "the publisher's promise to pay the *stated royalty*" would not be preempted. 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B][1][a], at 1-15 (2000) (emphasis added). Where the enforcement of specific contract terms is at issue, it will be immaterial whether the contract is express or implied by the actions of the party, since these are simply different ways of proving mutual assent and consideration. 4 Nimmer, *supra*, § 16.03, at 16-10 to 16-11; cf. *Spruytte* v. *Department of Corr.*, 266 N.W.2d 482, 483 (Mich. Ct. App. 1978) ("An implied contract, like other contracts, requires mutual assent and consideration.").

That does not mean that every claim of implied-in-fact contract survives, however. As the district court understood, but the court of appeals failed to apprehend, preemption "depends upon the precise contract right being asserted." App. 50a. See also *National Car Rental Sys.*, 991 F.2d at 434 n.6 (refusing to make broad preemptive holding where "the *specific* contract right [defendant] seeks to enforce is not

equivalent to any of the copyright rights") (emphasis added). Here, respondents are not seeking to vindicate a specific right to which assent was manifested in conduct rather than words. Rather, they claim that there was an agreement to pay "something" as reasonable value for the use of their ideas and works and that state law should supply the default terms regarding the scope, kind, and duration of the permitted use and the amount of compensation to be paid for that use.

For preemption purposes, the right claimed by respondents is no different from a right to reasonable compensation under an implied-in-law contract or "quasi contract." The latter "does not require a meeting of minds, but is imposed by fiction of law" to compensate one party for the benefits unjustly received by the other. *Cascaden* v. *Magryta*, 225 N.W. 511, 512 (Mich. 1929). Critically, a plaintiff who claims that he had a right to be paid the reasonable value of his work under an implied-in-fact contract lacking an explicit price term can assert the same right (quantum meruit) in quasi contract simply based on the defendant's use of the work, and may plead both claims in the alternative. See 3 Arthur Linton Corbin, *Corbin on Contracts* § 566, at 307-08 (1960); *id.* at 31 n.18 (Spring Cum. Supp. 2001); *Clower* v. *Brookman*, 325 S.W.2d 440, 444 (Tex. Civ. App. 1959).[3] The same act (uncompensated use of the plaintiff's work) that creates liability under an implied-in-fact contract without a price term also creates liability in quasi contract, even though quasi contract does not require a promise to pay. As is widely agreed, even by the Sixth Circuit, App. 19a-20a, actions in quasi contract involving the subject matter of the Copyright Act are preempted. See 1 Nimmer, *supra*, § 1.01[B][1][g], at 1-38 ("[A] state law cause of action for unjust enrichment or quasi contract should be regarded as an 'equivalent right' and

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[3] Indeed, respondents originally asserted an alternative claim in quasi-contract, and did not even appeal the district court's ruling that that claim was preempted.

hence, pre-empted insofar as it applies to copyright subject matter.") (emphasis and footnotes omitted); *Ehat*, 780 F.2d at 877-79. State-law claims for reasonable compensation under an implied-in-fact contract lacking a price term are preempted by section 301 for the same reasons as claims in quasi contract: it is federal law, not state law, that should determine the rights and relations between the parties in regard to the uncompensated use of copyrighted works.

Accordingly, this Court should grant certiorari in order to clarify both the scope of the rights protected by the Copyright Act and to ensure that lower courts are properly applying the preemption test mandated by section 301.

II. THE SIXTH CIRCUIT'S DECISION UNDERMINES THE CRITICAL FEDERAL POLICY OF NATIONAL UNIFORMITY IN COPYRIGHT LAW.

There are few areas of the law in which national uniformity, and the clarity of preemption rules, are more important than copyright law. The United States Constitution grants Congress the authority "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. As James Madison made clear in *Federalist Paper* No. 43:

> The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged . . . to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provision for either of the cases. . . .

The Federalist No. 43 (James Madison). Citing specifically to the concerns highlighted by Madison, Congress declared that "[o]ne of the fundamental purposes behind the copyright

clause of the Constitution, . . . was to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States." H.R. Rep. No. 94-1476, at 129, *reprinted in* 1976 U.S.C.C.A.N. at 5745. Determining that it was necessary to preempt state law governing copyright, Congress enacted section 301. *Id.* at 130, *reprinted in* 1976 U.S.C.C.A.N. at 5746.

Here, Congress's intent to preempt broadly state law in the area of copyright is both clear and express. In fact, this Court has acknowledged that Congress intends "to have national uniformity in patent and copyright laws," *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231 n.7 (1964). Congress's intent reflects the strong policy favoring clarity in questions of intellectual property because:

> [g]iven the inherently ephemeral nature of property in ideas, and the great power such property has to cause harm to the competitive policies which underlay the federal patent laws, the demarcation of broad zones of public and private right is "the type of regulation that demands a uniform national rule."

Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 162-63 (1989) (addressing preemption of state law by federal patent laws) (quoting *Ray* v. *Atlantic Richfield Co.*, 435 U.S. 151, 179 (1978)).

Indeed, in enacting section 301, Congress intentionally used "the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection." H.R. Rep. No. 94-

1476, at 130, *reprinted in* 1976 U.S.C.C.A.N. at 5746.[4] But "vague borderline areas" will result from the lower court's decision in this case.

Beyond contradicting Congress's express intent, the decision of the lower court also undermines the interests that underlay Congress's decision to preempt state law in this area. As Congress made clear, it was concerned that the dual jurisdictional system in place was causing confusion, such that "the results in individual cases ha[d] become unpredictable and often unfair." See *id.*, *reprinted in* 1976 U.S.C.C.A.N. at 5745. To resolve this concern, Congress determined that a "single Federal system . . . would be much more effective in carrying out the basic constitutional aims of uniformity and the promotion of writing and scholarship." *Id.* at 129, *reprinted in* 1976 U.S.C.C.A.N. at 5745.

This decision below, which permits a broad category of state-law claims to apply to subject matter within the scope of the Copyright Act, disrupts the national uniformity sought by Congress and threatens the predictability and certainty which Congress intended to give to those who participate in the exchange of ideas and expression. See, *e.g.*, *Daboub* v. *Gibbons*, 42 F.3d 285, 290 (5th Cir. 1995) ("[I]f the language of the act could be so easily circumvented, the preemption provision would be useless, and the policies behind a uniform Copyright statute would be silenced."). The concern is

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[4] Congress identified four "main arguments in favor of a single Federal system": (1) given that "the methods for dissemination of an author's work are incomparably broader and faster than they were in 1789, national uniformity in copyright protection is even more essential than it was then to carry out the constitutional intent"; (2) "diverse interpretations" of the term "publication" had led to chaos; (3) national uniformity was necessary to ensure that the Copyright Act's "time limit on the duration of exclusive rights" be maintained; and (4) "[a]doption of a uniform national copyright system would greatly improve international dealings in copyrighted material." H.R. Rep. No. 94-1476, at 129-30, *reprinted in* 1976 U.S.C.C.A.N. at 5745-46.

particularly grave here because implied-in-fact contracts are easily alleged; a plaintiff need only state that defendant received material "for which compensation is customarily expected." App. 39a.[5] Thus, creators who have presented ideas and expressions to companies may easily avoid limits on recovery imposed by federal copyright law simply by recasting their claims under state law, alleging that companies must pay royalties to use work unprotected by federal law. Such strategies unsettle commercial expectations and impair the free exchange of creative ideas, when even casual conversations or explorations create the risk of legal liability

This case presents a deep and mature circuit split on a federal question that is important to copyright law generally and to copyright preemption in particular. The decision below endangers the national uniformity sought through section 301 and reinstates the chaotic dual-system of regulation, and the attendant confusion and unfairness for litigants, that prevailed prior to the enactment of section 301. Accordingly, this Court should grant certiorari and reverse the decision of the Sixth Circuit.

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[5] The gravity of the threat to uniformity is easily illustrated by comparing Michigan law on implied-in-fact contracts with that of its neighboring state of Illinois. Here, the district court found that, under Michigan law, an implied-in-fact contract may be proven "where evidence shows that the parties understood that compensation would be paid for services rendered, . . . even if no agreement was reached as to price, duration, or other terms of the contract." App. 39a. By contrast, under Illinois law, the plaintiff fails to establish a contract by alleging "that 'a reasonable royalty to be fixed later' was to be paid plaintiff." *Mitchell Novelty Co.* v. *United Mfg. Co.*, 94 F. Supp. 612, 613 (N.D. Ill. 1950) ("An offer must be so definite in its terms, or request such definite terms in the acceptance that the promises and performances to be rendered by each party are reasonably certain."). This stark difference between Michigan and Illinois law makes clear that the court of appeals decision, if maintained, would make copyright matters again subject to the vagaries of state law—a result directly contrary to congressional intent.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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November 7, 2001

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
SIXTH CIRCUIT

No. 99-1807

WRENCH LLC, a Michigan Limited Liability Company; Joseph Shields; Thomas Rinks,
Plaintiffs-Appellants,

v.

TACO BELL CORP.,
Defendant-Appellee.

Argued Sept. 20, 2000
Decided and Filed July 6, 2001

Before BATCHELDER and COLE, Circuit Judges; GRAHAM, District Judge.*

OPINION

GRAHAM, District Judge.

This case raises a question of first impression in this circuit regarding the extent to which the Copyright Act preempts state law claims based on breach of an implied-in-fact contract. Plaintiffs-Appellants Wrench LLC, Joseph Shields, and Thomas Rinks brought this diversity action against Defendant-Appellee Taco Bell Corporation ("Taco Bell"), claiming breach of implied contract and various torts related to Taco Bell's alleged use of appellants' ideas. In three separate opinions, the district court found that the Copyright

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* The Honorable James L. Graham, United States District Judge for the Southern District of Ohio, sitting by designation.

Act, 17 U.S.C. § 301, preempted all of appellants' claims, including those based on breach of an implied-in-fact contract. On that basis, as well as on the alternate ground that appellants' concept lacked the novelty necessary to sustain their claims, the district court granted summary judgment to Taco Bell. Appellants now appeal the district court's grant of summary judgment, and argue the following: (1) that the district court erred in its preemption analysis under both the "subject matter" and "equivalency" prongs of 17 U.S.C. § 301(a); and, (2) that the district court erred in holding that novelty was required to sustain their implied-in-fact contract claim, and further that their ideas and concepts lacked novelty as a matter of law. For the reasons that follow, we REVERSE the judgment of the district court and remand this case for further proceedings.

I. BACKGROUND

Appellants Thomas Rinks and Joseph Shields are creators of the "Psycho Chihuahua" cartoon character which they promote, market, and license through their wholly-owned Michigan limited liability company, Wrench LLC. The parties have described Psycho Chihuahua as a clever, feisty dog with an attitude; a self-confident, edgy, cool dog who knows what he wants and will not back down.

In June 1996, Shields and Rinks attended a licensing trade show in New York City, where they were approached by two Taco Bell employees, Rudy Pollak, a vice president, and Ed Alfaro, a creative services manager. Pollak and Alfaro expressed interest in the Psycho Chihuahua character, which they thought would appeal to Taco Bell's core consumers, males aged eighteen to twenty-four. Pollak and Alfaro obtained some Psycho Chihuahua materials to take with them back to Taco Bell's headquarters in California.

Upon returning to California, Alfaro began promoting the Psycho Chihuahua idea within Taco Bell. Alfaro contacted

Rinks and asked him to create art boards combining Psycho Chihuahua with the Taco Bell name and image. Rinks and Shields prepared the art boards and sent them to Alfaro along with Psycho Chihuahua T-shirts, hats, and stickers for Alfaro to use in promoting the character. Because Alfaro was not part of the marketing group at Taco Bell, he first sought to gain support for Psycho Chihuahua from top executives outside of the marketing department. After several meetings with non-marketing executives, Alfaro showed the Psycho Chihuahua materials to Vada Hill, Taco Bell's vice president of brand management, as well as to Taco Bell's then-outside advertising agency, Bozell Worldwide. Alfaro also tested the Psycho Chihuahua marketing concept with focus groups to gauge consumer reaction to the designs submitted by Rinks and Shields.

During this time period, Rinks told Alfaro that instead of using the cartoon version of Psycho Chihuahua in its television advertisements, Taco Bell should use a live dog, manipulated by computer graphic imaging, with the personality of Psycho Chihuahua and a love for Taco Bell food. Rinks and Alfaro also discussed what it was going to cost for Taco Bell to use appellants' character, and although no specific numbers were mentioned, Alfaro understood that if Taco Bell used the Psycho Chihuahua concept, it would have to pay appellants.

In September 1996, Rinks and Shields hired Strategy Licensing ("Strategy"), a licensing agent, to represent Wrench in its dealings with Taco Bell. Representatives from Strategy contacted Alfaro about Taco Bell's interest in the Psycho Chihuahua concept, and presented him with additional materials for presentation to Taco Bell's advertising agency. These materials described Psycho Chihuahua as "irreverent," "edgy," and "spicy," with an "over-the-top" attitude and an "insatiable craving" for Taco Bell food. Throughout the late summer and fall of 1996, Alfaro

continued his discussions with Wrench about developing Psycho Chihuahua for Taco Bell's use.

On November 18, 1996, Strategy representatives forwarded a licensing proposal to Alfaro. The proposal provided that Taco Bell would pay Wrench a fee based upon a percentage of the money spent on advertising; a percentage of Taco Bell's retail licensing sales; and a percentage of the cost of premiums, such as toys sold at Taco Bell restaurants. Taco Bell did not accept this proposal, although it did not explicitly reject it or indicate that it was ceasing further discussions with Wrench.

On December 5, 1996, Alfaro met with Hill, who had been promoted to the position of chief marketing officer, and others, to present various licensing ideas, including Psycho Chihuahua. On February 6, 1997, Alfaro again met with appellants and representatives of Strategy to review and finalize a formal presentation featuring Psycho Chihuahua that was to be given to Taco Bell's marketing department in early March 1997. At this meeting, appellants exhibited examples of possible Psycho Chihuahua promotional materials and also orally presented specific ideas for television commercials featuring a live dog manipulated by computer graphics imaging. These ideas included a commercial in which a male dog passed up a female dog in order to get to Taco Bell food.

While Alfaro was meeting with appellants, another marketing firm, TLP Partnership ("TLP"), was also promoting appellants' Psycho Chihuahua to Taco Bell marketing executives. TLP presented several ideas, including the Psycho Chihuahua concept, to Taco Bell in anticipation of an upcoming summer promotion. TLP had discovered Psycho Chihuahua at a trade show in New York and had received Strategy's consent to use the image in its presentation. Alfaro was not aware of TLP's presentation. Following the presentation, Taco Bell conducted a series of

focus groups to research the reaction to TLP's proposals. Psycho Chihuahua was received positively by consumers, but Taco Bell decided not to use any of TLP's ideas.

Alfaro was unable to arrange a meeting with the marketing department during March 1997 to present the Psycho Chihuahua materials. On April 4, 1997, however, Strategy made a formal presentation to Alfaro and his group using samples of uniform designs, T-shirts, food wrappers, posters, and cup designs based on the ideas discussed during the February 6, 1997, meeting. Alfaro and his group were impressed with Strategy's presentation.

On March 18, 1997, Taco Bell hired a new advertising agency, TBWA Chiat/Day ("Chiat/Day"). Taco Bell advised Chiat/Day that it wanted a campaign ready to launch by July 1997 that would reconnect Taco Bell with its core group of consumers. Chuck Bennett and Clay Williams were designnated as the creative directors of Taco Bell's account.

On June 2, 1997, Bennett and Williams proposed a commercial to Taco Bell in which a male Chihuahua would pass up a female Chihuahua to get to a person seated on a bench eating Taco Bell food. Bennett and Williams say that they conceived of the idea for this commercial one day as they were eating Mexican food at a sidewalk cafe and saw a Chihuahua trotting down the street, with no master or human intervention, "on a mission." Bennett and Williams contend that this image caused them jointly to conceive of the idea of using a Chihuahua as a way of personifying the intense desire for Taco Bell food. Williams subsequently wrote an advertisement script using a Chihuahua, which Taco Bell decided to produce as a television commercial.

When, in June 1997, Alfaro learned that Chiat/Day was planning to use a Chihuahua in a commercial, he contacted Hill again about the possibility of using Psycho Chihuahua. Hill passed Alfaro on to Chris Miller, a Taco Bell advertising

manager and the liaison between Taco Bell's marketing department and Chiat/Day. On June 27, 1997, Alfaro gave Psycho Chihuahua materials to Miller along with a note suggesting that Taco Bell consider using Psycho Chihuahua as an icon and as a character in its advertising. Miller sent these materials to Chiat/Day, which received them sometime between June 28 and July 26.

Taco Bell aired its first Chihuahua commercial in the northeastern United States in July 1997, and received a very positive consumer reaction. On that basis, Taco Bell decided that the Chihuahua would be the focus of its 1998 marketing efforts, and launched a nationwide advertising campaign featuring Chihuahua commercials in late December 1997.

Appellants brought suit in January 1998, alleging breach of implied-in-fact contract as well as various tort and statutory claims under Michigan and California law. Appellee filed a motion to dismiss, which the district court granted in part and denied in part. *See Wrench LLC v. Taco Bell Corp.*, No. 1:98-CV-45, 1998 WL 480871, at *9; 49 U.S.P.Q.2d 1032 (W.D.Mich. June 18, 1998) ("*Wrench I*"). Although the district court dismissed appellants' unjust enrichment, conversion, and dilution claims on the basis that they were preempted by the Copyright Act, *see Wrench I*, 1998 WL 480871, at *5-6, the court held that appellants' misappropriation and unfair competition claims were not preempted because they required appellants to prove an "extra element" not required for a copyright infringement claim, namely, the existence of a legal relationship arising from an implied contract. *See id.* at *6-7. The district court also granted appellants leave to amend their conversion claim so that it might survive preemption. *See id.* at *7- 9.[1]

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[1] Appellee has not challenged the district court's ruling that insofar as preemption is concerned, appellants' tort claims stand or fall with their contract claims.

In a second, published, decision, the district court denied appellee's renewed motion to dismiss appellants' tort claims to the extent that they derived from an alleged implied-in-fact contract. *See Wrench LLC v. Taco Bell Corp.*, 36 F.Supp.2d 787, 790-91 (W.D.Mich.1998) ("*Wrench II*"). However, the district court granted appellee's motion to strike appellants' claims to the extent that they derived from a theory of quasi-contract or implied-in-law contract. *See Wrench II*, 36 F.Supp.2d at 790-91. The district court reasoned that such allegations were inconsistent with the court's prior ruling in *Wrench I* that appellants' unjust enrichment claim was preempted. *See id.*

At the close of discovery, the district court granted appellee's motion for summary judgment. *See Wrench LLC v. Taco Bell Corp.*, 51 F.Supp.2d 840 (W.D.Mich.1999) ("*Wrench III*"). The district court determined that there was sufficient evidence to support appellants' allegations that the parties had entered into an implied-in-fact contract. *See Wrench III*, 51 F.Supp.2d at 848. The district court nevertheless held that appellants' contract claim was preempted under the Copyright Act because, in the court's view, appellants' right to be paid under the contract was equivalent to the exclusive rights that the Copyright Act grants to authors. *See id.* at 850-58. Based on the court's reasoning in *Wrench I* and *Wrench II*, appellants' remaining tort claims—conversion, misappropriation, and unfair competition—were also preempted. *See id.* Although the district court rejected appellee's argument that summary judgment was warranted based on appellee's evidence of "independent creation," the court found as a matter of law that appellants' expressive work was not novel or original, and thus dismissed appellants' claims on that additional ground. *See id.*

The issues before us on appeal are: (1) whether the district court erred in finding that appellants' implied-in-fact contract

claim is preempted by the Copyright Act; and, (2) whether the district court erred in finding that novelty was required as an element of appellants' implied-in-fact contract claim and, if so, whether the district court erred in its finding that appellants' ideas and concepts were not novel as a matter of law.

II. DISCUSSION

This court reviews a district court's grant of summary judgment *de novo*. *See Allen v. Mich. Dep't of Corr.*, 165 F.3d 405, 409 (6th Cir.1999). Summary judgment is appropriate where "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). The moving party has the initial burden of showing the absence of a genuine issue of material fact as to an essential element of the non-moving party's case. *See Street v. J.C. Bradford & Co.*, 886 F.2d 1472, 1476 (6th Cir.1989) (citing *Celotex Corp. v. Catrett*, 477 U.S. 317, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986)). An issue of fact is "genuine" if the evidence is such that a reasonable jury could return a verdict for the nonmovant. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). Once the moving party satisfies its burden, "the burden shifts to the nonmoving party to set forth specific facts showing a triable issue." *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986).

The district court found that appellants produced sufficient evidence to create a genuine issue of material fact regarding whether an implied-in-fact contract existed between the parties. *See Wrench III*, 51 F.Supp.2d at 848. On appeal, Taco Bell argues that this conclusion was erroneous, and asserts that the record contains no evidence of an enforceable contract. We agree with the district court's finding that

appellants presented sufficient evidence to survive summary judgment on the question of whether an implied-in-fact contract existed under Michigan law. We must therefore determine whether appellants' implied-in-fact contract claim is preempted by federal law.

A. Preemption

Section 301 of the Copyright Act provides that:

> On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as defined by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

17 U.S.C. § 301(a) (1994). In sum, under § 301, a state common law or statutory claim is preempted if: (1) the work is within the scope of the "subject matter of copyright," as specified in 17 U.S.C. §§ 102, 103; and, (2) the rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright as set out in 17 U.S.C. § 106. *See Harper & Row Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 199-200 (2d Cir.1983), *rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985); *see also National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 848 (2d Cir.1997); *United States ex rel. Berge v. Bd. of Trustees of the Univ. of Ala.*, 104 F.3d 1453, 1462-63 (4th Cir.1997); *Ehat v. Tanner*, 780 F.2d 876, 878 (10th Cir. 1985). Courts and commentators have described this preemption analysis as encompassing a "subject matter requirement" and a "general scope" or "equivalency" requirement. *See National Basketball Ass'n*, 105 F.3d at 848;

1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B][1]-[2] at 1-10 to 1-57 (1999) [hereinafter *Nimmer on Copyright*].

1. Subject Matter Requirement

Appellants contend that the district court erred in finding that their claims fell within the subject matter provisions of the Copyright Act. Appellants argue that their state law claims are based on ideas and concepts that were conveyed to Taco Bell in both *tangible* and *intangible* form. They conclude that their claims do not come within the subject matter of copyright, and are thus not preempted, because § 102(b) expressly excludes intangible ideas and concepts from the subject matter of copyright.[2]

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[2] Section 102 provides:

§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

(2) musical works, including any accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works;

(7) sound recordings; and

(8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

In *Wrench I*, the district court found that appellants' claims fell within the subject matter of copyright "because they are premised upon ideas and concepts fixed in a tangible medium of expression, namely, 'storyboards' and 'presentation materials' furnished by Plaintiffs." 1998 WL 480871, at * 4. The district court reasoned that appellants' state law claims depended substantially upon works subject to the copyright protection, and did not arise solely out of intangible concepts that were orally conveyed to Taco Bell. *Id.*

In reaching this conclusion, the district court relied on the Fourth Circuit's decision in *Berge*, in which a plaintiff brought a state law conversion action claiming that defendants had used ideas and methods contained in plaintiff's dissertation without her permission. *See* 104 F.3d at 1456, 1462-63. The plaintiff contended that because ideas and methods are excluded from copyright protection under § 102, her state law claims could not be preempted under § 301. The court rejected this argument on the ground that the scope of protection afforded under copyright law is not the same as the scope of preemption. Rather, the court concluded that "the shadow actually cast by the [Copyright] Act's preemption is notably broader than the wing of its protection." *Id.* at 1463.

Appellants urge this court to reject this conclusion for the same reason urged by the plaintiff in *Berge*. Specifically, appellants argue that *Berge* does not comport with a literal reading of § 102(b), which expressly excludes ideas and other intangible forms of expression from copyright protection. Appellants rely on several district court cases which have held that because ideas and concepts are not afforded copyright protection, they are not within the subject matter of copyright.[3]

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[3] *See Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F.Supp. 1523, 1532 n. 16 (S.D.N.Y.1985) ("state laws that protect ideas, as distinct from

The appellate courts that have addressed this question have disagreed with the reasoning of the decisions cited by appellants, however. The Second, Fourth, and Seventh Circuits have held that the scope of the Copyright Act's subject matter extends beyond the tangible expressions that can be protected under the Act to elements of expression which themselves cannot be protected. *See, e.g., National Basketball Ass'n*, 105 F.3d at 849-850 (holding that subject matter of copyright under § 301 includes "uncopyrightable" as well as "copyrightable" elements); *Berge*, 104 F.3d at 1463 (finding that "scope and protection are not synonyms," and holding that uncopyrightable ideas that make up copyrightable works are within subject matter of copyright); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir.1996) (finding that uncopyrightable data underlying a copyrightable computer program are within subject matter of copyright). As the Second Circuit reasoned, the fact that copyrightable material contains uncopyrightable expressions should not remove the work from the subject matter of copyright under § 301, because otherwise "states would be free to expand the perimeters of copyright protection to their own liking, on the theory that preemption would be no bar to state protection of material not meeting federal statutory standards." *Harper & Row*, 723 F.2d at 200 (quoting H.R. Rep. No. 94-1476 at 130 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746).

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their expression, are without the subject matter of copyright"); *Canter v. West. Pub. Co.*, 31 F.Supp.2d 1193, 1999 WL 11701 at *7 (N.D.Cal.1999) (withdrawn from publication) ("To the extent Plaintiffs seek compensation for the underlying concepts, processes and procedures . . . rather than the specific expression . . . [the] cause of action is not preempted"); *Lattie v. Murdach*, 42 U.S.P.Q.2d 1240, 1997 WL 33803 at * 4 (N.D.Cal. Jan.9, 1997) (finding that "ideas do not come under the subject matter of copyright, and claims based upon them are not preempted").

We join our sister circuits in holding that the scope of the Copyright Act's subject matter is broader than the scope of the Act's protections. The record demonstrates that appellants expended considerable effort preparing and presenting tangible expressions of their Psycho Chihuahua concept for appellee, which expressions included storyboards, scripts, drawings, clothing designs, and packaging. The position now urged by appellants would require us to separate out appellants' intangible ideas from these tangible expressions, and would afford appellants a state law claim in the face of clear congressional intent to preempt such action. As the Seventh Circuit has noted, "[o]ne function of § 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain, which it can accomplish only if 'subject matter of copyright' includes all works of a type covered by sections 102 and 103, even if federal law does not afford protection to them." *Zeidenberg*, 86 F.3d at 1453. Thus, we conclude that the district court did not err with respect to the subject matter prong of its preemption analysis.

2. Equivalency Requirement

The second prong of the preemption analysis—the so-called "equivalency" or "general scope" requirement—augments the subject matter inquiry by asking whether the state common law or statutory action at issue asserts rights that are the same as those protected under § 106 of the Copyright Act.[4] Under § 301(a), even if appellants' state law

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[4] Section 106 provides:

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 121, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

claims concern works within the subject matter of copyright, such claims will only be preempted if they assert rights that are "equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106[.]" 17 U.S.C. § 301(a).

Equivalency exists if the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights. *See Harper & Row*, 723 F.2d at 200. Conversely, if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display in order to constitute a state-created cause of action, there is no preemption, provided that the extra element changes the nature of the action so that it is qualitatively different from a copyright infringement claim. *See id.*; *Rosciszewski v. Arete Associates, Inc.*, 1 F.3d 225, 230 (4th Cir.1993); *National Car Rental Sys., Inc. v. Computer Assocs. Intn'l, Inc.*, 991 F.2d 426, 431 (8th Cir.1993). We find that appellants' state law implied-in-fact contract claim survives preemption under these rules.

Under Michigan law, "[a]n implied contract, like other contracts, requires mutual assent and consideration." *Spruytte v. Dep't of Corr.*, 82 Mich.App. 145, 266 N.W.2d 482, 483 (1978). Michigan draws a clear distinction between contracts implied in fact and contracts implied in law:

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(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

> The first does not exist, unless the minds of the parties meet, by reason of words or conduct. The second is quasi or constructive, and does not require a meeting of minds, but is imposed by fiction of law[.]

Cascaden v. Magryta, 247 Mich. 267, 225 N.W. 511, 512 (1929).

The gist of appellants' state law implied-in-fact contract claim is breach of an actual promise to pay for appellants' creative work. It is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages. Thus, the state law right is not abridged by an act which in and of itself would infringe one of the exclusive rights granted by § 106, since the right to be paid for the use of the work is not one of those rights.

An extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute the state-created cause of action. The extra element is the promise to pay. This extra element does change the nature of the action so that it is qualitatively different from a copyright infringement claim. The qualitative difference includes the requirement of proof of an enforceable promise and a breach thereof which requires, *inter alia*, proof of mutual assent and consideration, as well as proof of the value of the work and appellee's use thereof.

This qualitative difference is further reflected by the difference in the remedy afforded by the state law claim. Under Michigan law, a plaintiff's remedy for breach of an implied-in-fact contract includes recovery of the reasonable value of the services rendered, considering factors such as the general practice of the industry. *See Rockwell & Bond, Inc. v. Flying Dutchman, Inc.*, 74 Mich.App. 1, 253 N.W.2d 368, 372 (1977); *see also Johnson v. Jones*, 921 F.Supp. 1573, 1586 (E.D.Mich.1996), *rev'd in part on other grounds*, 149 F.3d 494 (6th Cir.1998); *Comber Tool and Mold*

Engineering, Inc. v. General Motors Corp., 853 F.Supp. 238, 242 (E.D.Mich.1993).

Under the Copyright Act, remedies for infringement are limited to injunctions; impounding and destruction of infringing articles; recovery of the copyright owner's actual damages and any additional profits of the infringer or statutory damages; and costs and attorneys fees. *See* 17 U.S.C. §§ 502, 503, 504 and 505. The remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work. *See Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 406-07 (2nd Cir.1989).[5]

The proposition that a state law breach of contract claim based upon a promise to pay for the use of the work is not preempted is supported by an eminent authority on copyright law. *See* 1 *Nimmer on Copyright* § 1.01[B][1][a] at 1-15 to 1-16, which states:

> [*a*] *Breach of Contract.* Adverting first to contract rights, an author's right to royalties under a publication contract may be conditioned upon the publisher's acts of reproduction and distribution of copies of the work, but there is also another crucial act that stands as a condition to the publisher's liability: the publisher's promise to pay the stated royalty. Without a promise there is no contract, while a promise on the part of one who engages in unlicensed reproduction or distribution is not required in order to constitute him a copyright infringer. Certainly, pre-emption should be denied, to the extent that a breach of contract cause of action alleges more

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[5] *But see Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357, 360-61 (7th Cir.1985) ("The value of the infringer's use is a permissible basis for estimating actual damages."). This issue is discussed at length at 4 *Nimmer on Copyright* § 14.02[A] at 14-13 to 14-19.

> than reproduction, adaptation, etc. *simplicter* of a copyrighted work. (Footnotes omitted).

Here, as in the example given in *Nimmer on Copyright*, there is another crucial act that stands as a condition to the appellee's liability, to wit: its promise to pay for the use of the work. Thus, this is a case in which the breach of contract cause of action alleges more than reproduction, adaptation, etc., *simplicter*.

In finding that appellants' state law contract claim is not preempted, we do not embrace the proposition that all state law contract claims survive preemption simply because they involve the additional element of promise. *See, e.g., Zeidenberg*, 86 F.3d at 1454; [6] *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir.1990) (appendix). Under that rationale, a contract which consisted only of a promise not to reproduce the copyrighted work would survive preemption even though it was limited to one of the exclusive rights enumerated in 17 U.S.C. § 106. If the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted. The contrary result would clearly violate the rule that state law rights are preempted when they would be abridged by an act which in and of itself would infringe one of the exclusive rights of § 106. As the authors note in 1 *Nimmer on Copyright* § 1.01[B][1][a] at 1-22: "Although the vast majority of contract claims will presumably survive scrutiny . . . nonetheless pre-emption should continue to strike

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[6] The Seventh Circuit in *Zeidenberg* did qualify somewhat its broad holding that because contracts, unlike the Copyright Act, do not create exclusive rights but generally affect only their parties, they are not preempted, stating, "[W]e think it prudent to refrain from adopting a rule that anything with the label 'contract' is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee." 86 F.3d at 1455.

down claims that, though denominated 'contract,' nonetheless complain directly about the reproduction of expressive materials."

Our analysis of the preemption issue is supported by the following cases: *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923 (4th Cir.1988) (defendant's agreement that if he used Acorn's building plans, then he was obligated to either pay for the plans or purchase his building materials from Acorn did not arise out of the subject matter of copyright and was not preempted); *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F.Supp. 1201, 1205 (S.D.N.Y.1986) (finding that the breach of contract claims "involve an element beyond unauthorized reproduction and use—a promise to pay plaintiff for use of his product"); *Katz Dochrermann & Epstein, Inc. v. Home Box Office*, No. 97 CIV. 7763(TPG), 1999 WL 179603 at *4 (S.D.N.Y. Mar. 31, 1999) ("KDE's allegation that HBO made an implied promise to pay for its idea is entirely separate and apart from any claim for copyright infringement. . . . KDE's claim for breach of implied promise to pay is not preempted.")

In *Endemol Entm't B.V. v. Twentieth Television, Inc.*, No. CV 98-0608 ABC (BQRX), 1998 WL 785300, 48 U.S.P.Q.2d 1524 (C.D.Cal. Sept. 29, 1998), the case principally relied upon by the district court, the court found that plaintiff's implied contract claim was preempted because it fell "squarely into the category of contract claims that allege no additional rights other than promising not to benefit from the copyrighted work." *Id.* at 1528. The *Endemol* court cited *Nimmer on Copyright* § 1.01[B][1][a] at 1-19, [g] at 1-34 (1997),[7] for the proposition that "implied contracts as a species of *quasi*-contract 'should be regarded as an "equivalent right" and pre-empted [.]'" *Id.* In the instant case,

[7] This language is found in the 1999 edition of 1 *Nimmer on Copyright* in § 1.01[B][1][a] at 1-17, [g] at 1-37 to 1-38.

however, appellants' claim is not based on *quasi*-contract; instead, it is based upon an implied-in-fact contract which, under Michigan law, does not exist unless the minds of the parties meet by reason of words or conduct.

The authors of *Nimmer on Copyright* warn against confusing contracts implied in law (*quasi*-contract) and contracts implied in fact:

> Unfortunately, many courts in dealing with idea cases fail to distinguish between a contract implied in law and a contract implied in fact. An action in quasi contract is not a true contract since " 'quasi contracts, unlike true contracts, are not based upon the apparent intention of the parties to undertake the performances in question, nor are they promises. They are obligations created by law for reasons of justice.' . . . Quasi contractual recovery is based upon benefit accepted or derived from which the law implies an obligation to pay." An implied in fact contract on the other hand is a consensual agreement presenting the same elements as are found in an express contract except that in an implied in fact contract the promise is not expressed in words but is rather implied from the promisor's conduct.

4 *Nimmer on Copyright* § 16.03 at 10-10 to 16-11 (quoting *Weitzenkorn v. Lesser*, 40 Cal.2d 778, 794, 256 P.2d 947, 959 (1953)) (footnotes omitted).

For the purpose of the preemption analysis, there is a crucial difference between a claim based on *quasi*-contract, *i.e.*, a contract implied in law, and a claim based upon a contract implied in fact. In the former, the action depends on nothing more than the unauthorized use of the work. Thus, an action based on a contract implied in law requires no extra element in addition to an act of reproduction, performance, distribution or display, whereas an action based on a contract implied in fact requires the extra element of a promise to pay

for the use of the work which is implied from the conduct of the parties. The authors of *Nimmer on Copyright* explain the significance of this difference in their analysis of the Ninth Circuit's decision in *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973 (9th Cir.1987),[8] in which the court held that an unjust enrichment claim based on California law was preempted:

> In *Del Madera*, however, the court's disposition of the pre-emption argument may have been *dictum*, given the court's alternative holding that, under the facts there presented, an essential element for unjust enrichment was lacking under California law. *Id.* at 978. Further, had that essential element—namely, expectation of compensation by both parties—been present, it would seem that the California cause of action for unjust enrichment could be assimilable to a cause of action sounding in contract, for it would then contain an essential element not envisioned by Section 106. In that event, the unjust enrichment *cum* contract claim would not be pre-empted. *See* § 1.01 [B][1][a] *supra*.

1 *Nimmer on Copyright* § 1.01[B][1][g] at 1-38 n. 166.[9]

Here, appellants' implied-in-fact contract claim contains the essential element of expectation of compensation which is an element not envisioned by § 106. *See Cascaden*, 225 N.W. at 511-12 ("Plaintiffs cannot recover on the theory of a contract implied in fact, for the work was not done . . . under circumstances authorizing plaintiffs to entertain an expectation of pay from defendants.").

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[8] Taco Bell and the district court in *Wrench III*, 51 F.Supp.2d at 853, both cite the Ninth Circuit's decision in *Del Madera Properties* for the proposition that implied-in-fact contracts are preempted.

[9] This footnote in *Nimmer on Copyright* appears in the same section cited by the *Endemol* court for the proposition that all implied contract claims are preempted.

We conclude that the district court erred with respect to the equivalency prong of the preemption analysis and find that appellants' state law implied-in-fact contract claim is not preempted by the Copyright Act.

B. Independent Creation

Appellee argues on appeal that summary judgment should have been granted on the alternate ground that it has shown that the idea to use a live Chihuahua in Taco Bell advertising was independently created by Williams and Bennett at Chiat/Day. Appellee points to *Kienzle v. Capital Cities/Am. Broad. Co.*, 774 F.Supp. 432, 436 (E.D.Mich.1991), for the proposition that appellee may rebut a prima facie case of improper use of appellants' ideas by showing that the ideas were independently created. Appellants disagree, and contend that they have presented strong circumstantial evidence proving that appellee used appellants' Psycho Chihuahua concept. The district court did not agree with appellants that Taco Bell's Chihuahua strongly resembled Psycho Chihuahua, but nevertheless found that Taco Bell was not entitled to summary judgment on the basis of its affirmative defense of independent creation. *See Wrench III*, 51 F.Supp.2d at 855-56. Specifically, the district court found that testimony from Taco Bell's interested witnesses on the question of independent creation, by itself, was insufficient to support summary judgment. *Id.*

We agree with the district court's conclusion that the issue of independent creation presents genuine issues of material fact.

C. Novelty

Appellants assert that the district court erred in determining that novelty was required to sustain their contract claim. The district court found that Michigan law required appellants to prove the originality or novelty of their ideas in order to

maintain their claims, concluding that appellants' ideas were not novel because they "merely combined themes and executions that had been used many times in a variety of commercials for different products." *Wrench III*, 51 F.Supp.2d at 857. The district court thus granted summary judgment in favor of appellee on this alternative basis. *See id.* at 858. We conclude that the district court erred in finding that Michigan law requires novelty in a contract-based claim.

In *Wrench III*, the district court began its discussion of the issue of novelty with a reference to its decision in *Wrench II*, 36 F.Supp.2d at 790, in which novelty was discussed in the context of appellants' misappropriation and conversion claims. *See Wrench III*, 51 F.Supp.2d at 857, *citing Wrench II*, 36 F.Supp.2d at 790. In this section of its *Wrench II* decision, the district court addressed the issue of whether Michigan would recognize an action for conversion of an idea " 'if the idea was novel or original and furnished by the plaintiff to the defendant, pursuant to a legal relationship.'" *Id.* (quoting *Wrench I*, 1998 WL 480871, at *9). In *Wrench I*, the district court cited *Sarver v. Detroit Edison Co.*, 225 Mich.App. 580, 571 N.W.2d 759 (1997) in support of its conclusion that Michigan would recognize such a claim. *See Wrench I*, 1998 WL 480871, at *9. Later, in *Wrench III*, the district court relied primarily on New York case law to support its finding that appellants' ideas and concepts were not novel as a matter of law. The district court seems to have assumed, without further discussion, that if the novelty requirement applied to appellants' conversion and misappropriation claims, it would also apply to appellants' implied-in-fact contract claim.

Conversion is based on property law principles. *See Sarver*, 571 N.W.2d at 761. Courts have usually refused to protect ideas on a property theory, but when they have, it has generally been subject to the requirements of novelty and concreteness. *See* 4 *Nimmer on Copyright* § 16.02 at 16-5 to

16-9. In *Sarver*, the Michigan court quoted the following language from *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130 (Alaska 1996) (*per curiam*):

> "To protect an idea under a property theory requires that the idea possess property-like traits. Courts consider the elements of novelty or originality necessary for a claim of 'ownership' in an idea or concept. These elements distinguish protectable ideas from ordinary ideas that are freely available for others to use. It is the element of originality or novelty that lends value to the idea itself."

Sarver, 571 N.W.2d at 762 (quoting *Reeves*, 926 P.2d at 1143).

Most courts apply a different rule to contract claims, modifying the requirement of novelty in some circumstances and dispensing with it altogether in others. The reason for the distinction is this: property rights are rights against the world and courts are generally unwilling to accord that kind of protection to ideas; contract rights on the other hand are limited to the contracting parties and it should be for them to decide if an idea is sufficiently valuable to be purchased. *See* 4 *Nimmer on Copyright* § 16.02 at 16-5; § 16.08[B] at 16-60.

Nevertheless, many courts do require novelty in an action based upon an implied contract theory on the ground that there can be no consideration for an implied promise to pay if the idea does not constitute "property." *See* 4 *Nimmer on Copyright* § 16.08[B] at 16-60, 16-62. The authors of *Nimmer on Copyright* have criticized this view. Referring specifically to the dissenting opinion of former California Chief Justice Traynor in *Stanley v. Columbia Broad. Sys.*, 35 Cal.2d 653, 221 P.2d 73, 84 (1950), the authors of *Nimmer on Copyright* state:

> If, as suggested above, an implied contract is regarded as an agreement to pay for the disclosure of an idea, rather than for the idea itself, Chief Justice Traynor's . . .

> remarks lose much of their persuasiveness. It would seem to be a perfectly reasonable assumption that one would obligate himself to pay for the disclosure of an idea that he would otherwise be *legally* free to use, but that in fact he would be unable to use without such disclosure. Some subsequent decisions in California and elsewhere have recognized that the novelty requirement should not be injected by the court in implied contract actions.

4 *Nimmer on Copyright* § 16.08[B] at 16-62. (footnotes omitted).

Sarver tells us where Michigan likely stands on this issue. In *Sarver*, plaintiff brought an action against her employer seeking damages for conversion and breach of contract based on the allegation that defendant appropriated an idea which she submitted through an employee suggestion program. The court rejected plaintiff's conversion cause of action finding that plaintiff's idea "was neither novel nor unique" and "did not constitute property subject to a conversion cause of action." *Sarver*, 571 N.W.2d at 763. The *Sarver* court went on to hold, however, that plaintiff had stated a breach of contract claim, stating "to the extent that plaintiff seeks compensation for formulating, drafting, and submitting her idea pursuant to defendant's employee suggestion program, rather than for the idea itself, she has stated a breach of contract claim." *Id.* The *Sarver* court did *not* impose a requirement of novelty on plaintiff's contract claim.

As noted above, the *Sarver* court quoted with approval the decision of the Supreme Court of Alaska in *Reeves v. Alyeska Pipeline Service Co.* In *Reeves*, plaintiff had proposed the idea of creating a visitor center at a location where visitor's could view the Alaska oil pipeline. He brought an action alleging tort and contract claims against the pipeline servicing company, which subsequently established such a visitor

center. The Supreme Court of Alaska held that the element of novelty was not required for plaintiff's implied contract claim:

> Relying largely on cases from New York, Alyeska argues that novelty and originality should be required in an implied-in-fact claim. Reeves responds that we should follow California's example and not require novelty as an essential element of this sort of claim.
>
> Idea-based claims arise most frequently in the entertainment centers of New York and California, but New York requires novelty, whereas California does not. (Citations omitted).
>
> We prefer the California approach. An idea may be valuable to the recipient merely because of its timing or the manner in which it is presented. . . .
>
> Implied in fact contracts are closely related to express contracts. Each requires the parties to form an intent to enter into a contract. It is ordinarily not the court's role to evaluate the adequacy of the consideration agreed upon by the parties. *Carroll v. Lee*, 148 Ariz. 10, 712 P.2d 923, 926-27 (1986). The bargain should be left in the hands of the parties. If parties voluntarily choose to bargain for an individual's services in disclosing or developing a non-novel or unoriginal idea, they have the power to do so.

Reeves, 926 P.2d at 1130, 1141-1142. Since the Michigan court in *Sarver* quoted *Reeves* on the requirement of novelty in an action based on conversion and went on to hold that the plaintiff's contract claim survived notwithstanding lack of novelty, we conclude that Michigan follows *Reeves* and the California cases which dispense with the requirement of novelty in actions based on implied-in-fact contracts.

In its analysis of the issue of novelty in *Wrench III*, the district court relied heavily on New York cases. *See*

Wrench III, 51 F.Supp.2d at 857. We think it unlikely that Michigan would follow the New York position on novelty in light of *Sarver*. Be that as it may, the conflict between the California and New York authorities referred to in *Reeves* was largely resolved by a 1993 decision of New York's highest appellate court in *Apfel v. Prudential-Bache Secs. Inc.*, 81 N.Y.2d 470, 600 N.Y.S.2d 433, 616 N.E.2d 1095 (1993), wherein the New York Court of Appeals expressly rejected the proposition that novelty is required in all cases involving disclosure of ideas:

> Defendant does not claim that it was aware of the idea before plaintiffs disclosed it but, rather, concedes that the idea came from them. When a seller's claim arises from a contract to use an idea entered into *after* the disclosure of the idea, the question is not whether the buyer misappropriated property from the seller, but whether the idea had value to the buyer and thus constitutes valid consideration. In such a case, the buyer knows what he or she is buying and has agreed that the idea has value, and the Court will not ordinarily go behind that determination. The lack of novelty, in and of itself, does not demonstrate a lack of value [citing *Keller v. American Chain Co.*, 255 N.Y. 94, 174 N.E. 74 (1930)].

600 N.Y.S.2d 433, 616 N.E.2d at 1098.

The Second Circuit, citing *Apfel*, recently reversed the award of summary judgment in *Nadel v. Play By Play Toys & Novelties, Inc.*, 34 F.Supp.2d 180 (S.D.N.Y.1999), one of the cases cited by the district court in *Wrench III*, holding that New York law no longer required novelty and originality generally but that novelty to the buyer would suffice to support a contract-based claim. *See Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 376 (2nd Cir.2000) ("[T]he *Apfel* court clarified that the longstanding requirement that an idea have originality or general novelty in

order to support a misappropriation claim does not apply to contract claims. . . . For contract-based claims in submission-of-idea cases, a showing of novelty to the buyer will supply sufficient consideration to support a contract.").

While we conclude that Michigan would not impose a requirement of novelty in an action based upon a contract implied in fact, it does not appear that the result of this case would change even if Michigan were to follow the New York view, which requires only novelty to the defendant. Here, Taco Bell does not claim that it was aware of appellants' ideas prior to disclosure. Accordingly, we find that the district court erred in granting summary judgment to the appellee on the ground that appellants failed to show that their ideas were novel or original.

III. CONCLUSION

The judgment of the district court is REVERSED and this action is REMANDED to the district court for further proceedings consistent with this opinion.

APPENDIX B

UNITED STATES DISTRICT COURT
W.D. MICHIGAN
SOUTHERN DIVISION

No. 1:98-CV-45

WRENCH LLC, a Michigan Limited Liability Company; Joseph Shields; and Thomas Rinks,
Plaintiffs,

v.

TACO BELL CORP., a foreign corporation,
Defendant.

June 10, 1999

OPINION

QUIST, District Judge.

This case is about two dogs: Gidget, a live female Chihuahua who stars in Defendant, Taco Bell Corp.'s ("Taco Bell"), popular television commercials as the suave male Chihuahua with a taste for Taco Bell food and known for the line, "Yo quiero Taco Bell" ("I want some Taco Bell"), and "Psycho Chihuahua," Plaintiffs' caricature of a feisty, edgy, confident Chihuahua with a big dog's attitude. The question at the bottom of this dispute is whether Taco Bell's live Chihuahua is Psycho Chihuahua incarnate. Plaintiffs contend that Taco Bell used their ideas based on Psycho Chihuahua to create the live Chihuahua character featured in Taco Bell's current advertising campaign and have sued Taco Bell alleging claims for breach of implied contract, misappropriation, conversion, and unfair competition. Now before the Court is Taco Bell's motion for summary judgment.

Facts

Plaintiffs reside in Grand Rapids, Michigan, and are the developers and promoters of a cartoon character known as "Psycho Chihuahua." Taco Bell is a franchisor of fast food Mexican restaurants, with its principal offices in Irvine, California.

Plaintiffs Thomas Rinks ("Rinks") and Joseph Shields ("Shields") developed Psycho Chihuahua sometime in early 1995. Psycho Chihuahua depicted a clever, feisty Chihuahua dog with a "do-not-back-down" attitude. (Shields Dep. at 88, Def.'s App. B2 Ex. 18; *see also* 1st Am.Compl. ¶ 7.) Rinks and Shields promoted and marketed Psycho Chihuahua through Wrench LLC ("Wrench"), their wholly-owned limited liability company. Plaintiffs initially marketed Psycho Chihuahua on a small scale through use on T-shirts and other merchandise. However, by early 1996, Wrench had licensed the rights to produce the apparel to several large manufacturers.

In June 1996, Rinks and Shields attended a licensing trade show in New York City to promote Psycho Chihuahua. Ed Alfaro ("Alfaro"), Taco Bell's Creative Services Manager, and Alfaro's boss, Rudy Pollak ("Pollak"), Taco Bell's Vice President of Administration and Employee Programs, also attended the show. Alfaro and Pollak had gone to the show in order to meet with a licensing agent and obtain ideas for use in a potential Taco Bell retail licensing program. Alfaro was part of a department known at Taco Bell as "Visionary Infoworks." Alfaro's department was in charge of developing the Taco Bell licensing program, which was separate from Taco Bell's marketing department. During the show, Alfaro noticed the Psycho Chihuahua display, and he and Pollak approached Rinks and Shields to talk about the character. Alfaro, who was immediately taken with Psycho Chihuahua, saw it as a "strong character" that would appeal to Taco Bell's core consumers, males ages 18-24. (*See*

Alfaro Dep. at 46-48, Def.'s App. B Ex. 2.) Alfaro and Pollak spoke briefly with Rinks and Shields and obtained some Psycho Chihuahua materials to take with them to Taco Bell's headquarters in California.

After returning to California, Alfaro began to promote Psycho Chihuahua within the company as a potential Taco Bell corporate "icon." Alfaro contacted Rinks and asked him to create art boards combining Psycho Chihuahua with the Taco Bell name and image. Shortly after Alfaro made the request, Rinks and Shields prepared and sent several art boards to Alfaro, along with Psycho Chihuahua T-shirts, hats, and stickers for Alfaro to use in promoting Psycho Chihuahua at Taco Bell.

Alfaro introduced Psycho Chihuahua at Taco Bell by passing out the Psycho Chihuahua items that Rinks and Shields had sent him and meeting with top executives to gain their support for the character. Because Alfaro was not a part of the marketing group, he first sought to gain the support of top executives outside of the marketing department to gain support for his clan to sell the character to the marketing department.[1] In late July or August, Alfaro held separate meetings with Joaquin Palaez, Taco Bell's Vice President of Quality and Technology, and Olden Lee, Taco Bell's Senior Vice President of Human Resources, to introduce them to Psycho Chihuahua and receive comments on the character. Later, Alfaro showed the materials to other executives, including Vada Hill, Taco Bell's Vice President of Brand Management. Alfaro and Pollak also presented the Psycho Chihuahua materials to Taco Bell's then-outside advertising

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[1] In a memorandum dated January 14, 1997, Arlene Scanlan, wrench's [sic] licensing agent, recognized that "politics at [Taco Bell] prevent[ed] [Alfaro] from pushing [Psycho Chihuahua] on [Taco Bell's] marketing department. . . ." (Scanlan Mem. of 1/14/97, Pls.' App.Ex. 13.) Thus, Scanlan was careful to bear in mind that any Psycho Chihuahua materials presented to Alfaro had to be "politically correct." (*Id.*)

agency, Bozell Worldwide. In addition, Alfaro presented Psycho Chihuahua and other graphic designs to a series of focus groups to gauge consumer reaction to the designs as potential Taco Bell icons. Psycho Chihuahua was the best received design. (*See* Alfaro Dep. at 90.)

In September 1996, Wrench hired Strategy Licensing ("Strategy"), a Connecticut-based licensing agent. Arlene Scanlan ("Scanlan") and Neal Seideman ("Seideman"), the Strategy representatives for Wrench, became involved in the communications with Alfaro. On September 11, 1996, Scanlan wrote a letter to Alfaro thanking him for his help in promoting Psycho Chihuahua at Taco Bell and expressing her enthusiasm for "the opportunity to work alongside the Taco Bell brand. . . ." (Letter from Scanlan to Alfaro of 9/11/96, Pls.' App.Ex. 7.) Scanlan also enclosed marketing boards and other Psycho Chihuahua materials for the presentation to Bozell, which described Psycho Chihuahua as "irreverent," "edgy," and "spicy" with an "over-the-top" attitude and an "insatiable craving" for Taco Bell food. (*See* Pls.' App. Ex. 8.) Wrench also sent additional materials to Alfaro, which included marketing boards, point of purchase drawings, and commercial scripts. (*See* Pls.' App.Ex. 9.) Throughout the late summer and fall, Alfaro continued his discussions with Rinks about developing Psycho Chihuahua for Taco Bell's use.

In November 1996, Scanlan and Seideman attended a meeting with Pollak, Alfaro, and two other members of Alfaro's group. Topics of the meeting included Taco Bell's past marketing efforts and future marketing plans, and the scope of potential use of Psycho Chihuahua. In particular, the parties discussed broadening the use from merely applications in sales of retail merchandise such as T-shirts, as originally envisioned by Alfaro's group, to use in Taco Bell's advertising. At the conclusion of the meeting, Pollak asked Scanlan to prepare a proposal of the terms for Taco Bell's use of Psycho Chihuahua.

Scanlan sent a proposal to Alfaro on November 18, 1996, based on a licensing agreement that Scanlan had worked on for PepsiCo's use of a character known as Fido Dido. (*See* Scanlan Dep. at 198-99, 351, Pls.' Dep.App.) The proposal provided that Taco Bell would pay Wrench a percentage based upon the amount of money spent on advertising, a percentage of Taco Bell's retail licensing sales, and a percentage based on the cost of premiums, such as toys sold in Taco Bell restaurants. (*See id.* at 393-94; Letter from Scanlan to Alfaro of 11/18/96, Pls.' App.Ex. 11.) Taco Bell did not accept the proposal, although it did not explicitly reject it or indicate that it was ceasing further discussions. (*See* Scanlan Dep. at 202-04, Pls.' Dep.App.) In fact, Alfaro continued to talk with Wrench and promote Psycho Chihuahua within Taco Bell. On December 5, 1996, Alfaro and Pollack met with Vada Hill, who then held the position of Chief Marketing Officer, and others to present licensing various ideas, including Psycho Chihuahua. (*See* Hill Dep. at 123-25, Pls.' Dep.App.) A few days later, Pollak told Alfaro that they should continue to work on the Psycho Chihuahua idea to show Vada Hill "a better alternative" to other ideas under consideration "if there [was] one!" (E-mail from Pollak to Alfaro of 12/9/96, Pls.' App.Ex. 15.)

In February 1997, Alfaro traveled to Grand Rapids, for a meeting with Rinks, Shields, Scanlan, and Seideman to review and finalize a formal presentation featuring Psycho Chihuahua to be presented to Taco Bell's marketing department in early March 1997. During the meeting, Wrench presented ideas for an advertising, licensing, and promotional campaign called "Go Psycho at Taco Bell." (*See* Pls.' App.Ex. 16.) The ideas discussed included using a live dog manipulated through CGI (computer graphics imaging) (*See id.*) The participants also discussed ideas for commercials, such as a male Chihuahua passing up a female Chihuahua, the use of a bobbing head doll, and a Chihuahua head popping

out of a circle at the end of commercials. (*See* Alfaro Dep. at 209-10, Rinks Dep. at 248-49, Pls.' Dep.App.)

By coincidence, while Alfaro was working with Rinks and Shields on producing the presentation for the marketing department, another firm, TLP Partnership ("TLP"), was also promoting Psycho Chihuahua to Taco Bell as one of several possible ideas for a Cinco de Mayo or summer promotion.[2] On February 6, 1997, TLP made a presentation to members of Taco Bell's marketing department which included Psycho Chihuahua. (*See* C. Hennessy Dep. at 12-17, Def.'s App. B1 Ex. 8; Pls.' App.Ex. 20.) TLP had discovered Psycho Chihuahua at a trade show in New York and received Strategy's consent to use the image in its presentation. Alfaro was not aware of TLP's presentation. Following the presentation, Taco Bell conducted a series of focus groups to research consumer reaction to TLP's ideas. Psycho Chihuahua was one of two ideas that sparked positive consumer reaction. (*See* Pls.' App.Ex. 23 at TB000291.) However, Taco Bell did not use any of TLP's ideas. (*See* M. Hennessy Dep. at 29, Def.'s App. B1 Ex. 9.)

Alfaro was unable to arrange a meeting during March 1997 with the marketing department to present the Psycho Chihuahua materials. However, on April 4, 1997, Scanlan and Seideman made a formal presentation of the "Go Psycho" campaign to Alfaro and his group using samples of uniform designs, T-shirts, food wrappers, posters, and cup designs based upon the ideas discussed during the February 6, 1997, meeting. Scanlan and Seideman also presented storyboards depicting two of the ideas for commercials discussed during the February 6, 1997, meeting. (*See* Pls.' App.Ex. 28.) Alfaro and his group were impressed with the "Go Psycho" materials.

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[2] Cinco de Mayo is the Mexican holiday that celebrates the victory of Mexican troops over French forces in Puebla, Mexico on May 5, 1862. *See Random House Dictionary of the English Language* 373 (2d ed.1987).

On March 18, 1997, Taco Bell hired a new advertising agency, TBWA Chiat/Day ("Chiat/Day") In a meeting held a few days later, Taco Bell briefed Chiat/Day on the history of its brand, its marketing history, its consumer profile, and its past advertising campaigns. Taco Bell advised Chiat/Day that it wanted a campaign ready to launch by July 1997 that would reconnect Taco Bell with its core group of consumers, males 18 to 24 years old. Chuck Bennett ("Bennett") and Clay Williams ("Williams") were asked to work on the Taco Bell account as creative directors. Bennett's and Williams' prior collaborative efforts included a commercial spot which they made for Nissan Motor Corp. This spot featured several dogs, including a Chihuahua, taking a sport utility vehicle and its owner for a joy ride. (*See* Bennett Dep. at 221-22, Def.'s App. B2 Ex. 3; Williams Dep. at 370, Def.'s App.B.Ex. 23.)

By late May, Bennett and Williams had come up with approximately thirty ideas for television commercials. Many of the ideas were based on the theme: "There's something inside you that's hungry for Taco Bell," which Chiat/Day had developed based on feedback from the focus groups. The main theme presented was the "Burp" idea, in which various characters would burp in different "humorous circumstances." Chiat/Day presented these ideas in a meeting held on May 20, 1997. Taco Bell did not like the ideas.

On June 2, 1997, Bennett and Williams made another presentation to Taco Bell in which they presented several new themes, including one called the "Hunger Monster," one called the "Pink Room," which was intended to depict different scenes showing a person's stomach and incorporated the "Something Inside You is Hungry For Taco Bell," and one involving a Chihuahua, in which a male Chihuahua would pass up a female Chihuahua to get to a person seated on a bench eating Taco Bell food.

According to Bennett and Williams, they conceived the "Chihuahua" idea as they were having lunch on a Sunday

afternoon at an outdoor Mexican restaurant. (Bennett Dep. at 203-05; Williams Dep. at 174-75.) According to them, as they sat there, they noticed a Chihuahua trotting down the street that appeared to be on a mission, and thought that using a Chihuahua may be "a way of personifying the intense desire for Taco Bell" food. (Williams Dep. at 180.) Williams wrote a script using the Chihuahua, which was presented to Taco Bell at the June 2, 1997, meeting. (*See* Pls.' App.Ex. 35.)

Following the June 2 meeting Chiat/Day conducted focus groups to test consumer reaction to the proposed ideas. After reviewing the focus group results, a decision was made to produce three commercials based on the "Pink Room" idea, a commercial called "Bigger is Better," and one "Chihuahua" commercial. (*See* Miller Dep. at 184, Def.'s App. B2 Ex. 12.)

In June 1997, Alfaro met with Scanlan and Seideman at the same licensing show in New York at which he had discovered Psycho Chihuahua a year earlier and told Scanlan that he was still interested in using Psycho Chihuahua. (*See* Pls.' App. Ex. 36.) On June 26, 1997, Scanlan sent Alfaro materials from the "Go Psycho" campaign to use in a meeting with Chiat/Day. (*See* Letter from Scanlan to Alfaro of 6/26/97, Pls.' App.Ex. 37.) Sometime during that month Alfaro had learned that Chiat/Day was planning to use a Chihuahua in a commercial, and he believed that he still might be able to persuade the marketing department to use Psycho Chihuahua. Alfaro left a voice mail with Vada Hill about the prospect, and Hill forwarded the message to Chris Miller, Taco Bell's Advertising Manager and the liaison between the marketing department and Chiat/Day. (*See* Miller Dep. at 198-99, Pls.' Dep.App.) On June 27, 1997, Alfaro passed the materials along to Miller along with a note suggesting that Taco Bell consider using Psycho Chihuahua as an icon and as a character in its advertising. (*See* Mem. from Alfaro to Miller of 6/27/97, Def.'s App. D Ex. 6.) The materials were received by Chiat/Day sometime between June 28 and

July 26. (*See* E-mail from Miller to Alfaro of 7/26/97, Def.'s App. D Ex. 7.)

The "Chihuahua" and "Pink Room" commercials were shown regionally sometime in July. Based upon feedback from focus groups, Chiat/Day determined that the reaction to "Chihuahua" was very positive. On that basis, Taco Bell decided that the Chihuahua would be the focus of its 1998 campaign, and on December 28, 1997, Taco Bell launched its national campaign. To this day, Taco Bell continues to air commercials using the Chihuahua. Taco Bell's Chihuahua commercials have been very successful.

Summary Judgment Standard

Summary judgment is appropriate if there is no genuine issue as to any material fact and the moving party is entitled to a judgment as a matter of law. Fed.R.Civ.P. 56. The rule requires that the disputed facts be material. Material facts are facts which are defined by substantive law and are necessary to apply the law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed.2d 202 (1986). A dispute over trivial facts which are not necessary in order to apply the substantive law does not prevent the granting of a motion for summary judgment. *Id.* at 248, 106 S.Ct. at 2510. The rule also requires the dispute to be genuine. A dispute is genuine if a reasonable jury could return judgment for the non-moving party. *Id.* This standard requires the non-moving party to present more than a scintilla of evidence to defeat the motion. *Id.* at 251, 106 S.Ct. at 2511 (citing *Improvement Co. v. Munson*, 14 Wall. 442, 448, 20 L.Ed. 867 (1872)).

A moving party who does not have the burden of proof at trial may properly support a motion for summary judgment by showing the court that there is no evidence to support the non-moving party's case. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324-25, 106 S.Ct. 2548, 2553-54, 91 L.Ed.2d 265

(1986). If the motion is so supported, the party opposing the motion must then demonstrate with "concrete evidence" that there is a genuine issue of material fact for trial. *Id.*; *Frank v. D'Ambrosi*, 4 F.3d 1378, 1384 (6th Cir.1993). The court must draw all inferences in a light most favorable to the non-moving party, but may grant summary judgment when "the record taken as a whole could not lead a rational trier of fact to find for the non-moving party." *Agristor Financial Corp. v. Van Sickle*, 967 F.2d 233, 236 (6th Cir.1992) (quoting *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S.Ct. 1348, 1356, 89 L.Ed.2d 538 (1986)).

Discussion

In its prior opinion issued on June 18, 1998, this Court granted in part and denied in part Taco Bell's motion to dismiss, leaving intact the breach of implied contract, misappropriation, conversion, and unfair competition claims. *See Wrench LLC v. Taco Bell Corp.*, No. 1:98-CV-45, 1998 WL 480871, at *9 (W.D.Mich. June 18, 1998) ("*Wrench I*"). In particular, the Court held that Plaintiffs' misappropriation, conversion, and unfair competition claims were not pre-empted by § 301(a) of the Copyright Act because they require Plaintiffs to prove an extra element not required for a copyright infringement claim, namely, the existence of a legal relationship arising from an implied contract. *See id.* at *7-9. In a supplemental opinion denying Taco Bell's renewed motion to dismiss Counts II through V of Plaintiffs' First Amended Complaint and granting Taco Bell's motion to strike, the Court struck Plaintiffs' allegations of a legal relationship arising from a quasi contract on the basis that such allegations were inconsistent with the Court's earlier determination that Plaintiffs' unjust enrichment claim was preempted. *See Wrench LLC v. Taco Bell Corp.*, 36 F.Supp.2d 787, 790-91 (W.D.Mich.1998) ("*Wrench II*").

In its present motion, Taco Bell contends that it is entitled to summary judgment because: (1) Plaintiffs have not

established an implied in fact contract, or alternately, if they have, their claims are preempted by the Copyright Act because the implied contract creates legal rights that are equivalent to the rights within the general scope of copyright; (2) the concept of using a live Chihuahua in Taco Bell commercials was independently created by Chiat/Day; and (3) Plaintiffs' ideas were not novel.

As discussed below, the Court concludes that although Plaintiffs have presented sufficient evidence to establish an implied in fact contract, those claims are subject to copyright preemption. Although the Court concludes that Plaintiffs' claims are preempted, it will also address Taco Bell's independent creation and novelty arguments.

I. Implied In Fact Contract

A contract between two parties may be implied in fact when the intention to enter into a contract "is not manifested by direct or explicit words between the parties," but instead is "gathered by implication or proper deduction from the conduct of the parties, language used, or things done by them, or other pertinent circumstances attending the transaction." *Miller v. Stevens*, 224 Mich. 626, 632, 195 N.W. 481, 482 (1923); *see also Featherston v. Steinhoff*, 226 Mich.App. 584, 589, 575 N.W.2d 6, 9 (1997) (noting that "[w]here the parties do not explicitly manifest their intent to contract by words, their intent may be gathered by implication from their conduct, language, and other circumstances attending the transaction"). "An implied contract, like other contracts, requires mutual assent and consideration" and is treated in all other respects like an express contract. *Spruytte v. Department of Corrections*, 82 Mich.App. 145, 147, 266 N.W.2d 482, 483 (1978). Therefore, "[i]n determining whether there is a contract implied in fact, the courts look to the acts and conduct of the parties to determine whether the essential elements of an express contract have been established." *Lawrence v. Ingham County Health Dep't Family*

Planning/Pre-Natal Clinic, 160 Mich.App. 420, 422 n. 1, 408 N.W.2d 461, 462 n. 1 (1987).

Implied in fact contracts often arise where one accepts a benefit from another for which compensation is customarily expected. *See Miller*, 224 Mich. at 632, 195 N.W. at 483. Thus, where evidence shows that the parties understood that compensation would be paid for services rendered, a promise to pay fair value may be implied, even if no agreement was reached as to price, duration, or other terms of the contract. *See In re Estate of Morris*, 193 Mich.App. 579, 583, 484 N.W.2d 755, 756-57 (1992).

Taco Bell concedes that there is sufficient evidence in the record to support Plaintiff's allegation that the parties had a basic understanding that if Taco Bell used the Psycho Chihuahua idea, concept, or image, that Taco Bell would compensate Plaintiffs for the fair value of such use. (*See* Def.'s Br.Supp. at 28 (citing Alfaro Dep. at 171-73; Pollack Dep. at 206).) However, Taco Bell argues that Plaintiffs cannot prove the existence of an implied in fact contract because the parties did not agree on any of the essential terms that would normally be included in a licensing agreement, such as price, duration, scope of use, and exclusivity. Plaintiffs agree that no agreement was reached on the terms that would normally be included in a licensing agreement, but argue that their understanding with Alfero that Taco Bell would pay Plaintiffs for the use of the Psycho Chihuahua materials if Taco Bell decided to use the Psycho Chihuahua idea is, by itself, sufficient to support an implied in fact contract.

Courts in several jurisdictions have agreed with Plaintiffs' contention that an implied in fact contract may be found when the parties have an understanding that the recipient of a valuable idea has accepted and used the idea, knowing that compensation is expected for use of the idea, without paying the purveyor of the idea. For example, in *Desny v. Wilder*,

46 Cal.2d 715, 299 P.2d 257 (1956), the plaintiff, at defendant's request, prepared an abbreviated movie script for defendant. Plaintiff communicated a synopsis of the script to defendant's secretary. Shortly thereafter, the defendant produced a movie that closely resembled the plaintiff's story, but did not pay plaintiff for it. The California Supreme Court concluded that there was a genuine issue of material fact as to whether an implied in fact contract existed. *See Desney*, 46 Cal.2d at 738, 299 P.2d at 269; *see also Landsberg v. Scrabble Crossword Game Players, Inc.*, 802 F.2d 1193, 1196 (9th Cir.1986) (stating that "California law allows for recovery for the breach of an implied-in-fact contract when the recipient of a valuable idea accepts the information knowing that compensation is expected, and subsequently uses the idea without paying for it" (citing *Desney*)).

The Alaska Supreme Court reached a similar conclusion in *Reeves v. Alyeska Pipeline Service Co.*, 926 P.2d 1130 (Alaska 1996) (per curiam). Citing 3 David Nimmer, *Nimmer on Copyright*, § 16.05[D], at 16-40 (1994), the court noted that "a request by the recipient for disclosure usually implies a promise to pay for the idea if the recipient uses it." *Reeves*, 926 P.2d at 1141. The court held that a reasonable jury could find that an implied in fact contract was created because the plaintiff had shown that the defendant solicited the plaintiff's idea and later asked for a written proposal. *See id.*

Similarly, in *Riese v. QVC, Inc.*, No. 97-4068, 1999 WL 178545, 1999 U.S.Dist. LEXIS 3746 (E.D.Pa. Mar. 31, 1999) (mem.op.), the court concluded that a reasonable jury could find that an implied in fact contract was established where the plaintiff, who had provided the defendant with an idea for a television show, notified the defendant that he expected that he would act as the producer of the television show if his idea was used. *See Riese*, 1999 WL 178545, at *5, 1999 U.S.Dist. LEXIS 3746, at *16-17.

The Court agrees with the analysis in these cases and finds that Plaintiffs have presented sufficient evidence to create a genuine issue of material fact regarding whether an implied in fact contract existed between the parties. The cases establish that a plaintiff may support a claim of implied in fact contract by showing that the plaintiff disclosed an idea to the defendant at the defendant's request and the defendant understood that the plaintiff expected compensation for use of his ideas. Because Taco Bell concedes that there is sufficient evidence to support such an understanding in this case, Taco Bell's assertion that Plaintiffs cannot establish an implied in fact contract must be rejected.[3]

II. Copyright Preemption

Taco Bell argues that even if the parties had an implied in fact contract that Taco Bell would pay Plaintiffs if it used their ideas and concepts, all of Plaintiffs' claims are pre-empted under § 301(a) of the federal Copyright Act because, apart from its label, the substance of Plaintiffs' implied in fact contract claim asserts rights that are equivalent to exclusive

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[3] Taco Bell presents two additional arguments concerning the creation of an implied in fact contract. First, Taco Bell argues that its rejection of an express contract, i.e., the proposal submitted by Scanlan in November 1996, shows that there was no implied in fact contract. However, Plaintiffs have shown that there is a genuine issue of material fact as to whether Taco Bell expressly rejected the proposal. Furthermore, Alfaro continued to work with Plaintiffs on developing ideas for Taco Bell after November 1996, and Taco Bell admits that there is evidence of an understanding that Plaintiffs would be paid if Taco Bell used their work.

Second, Taco Bell argues that Alfaro did not have authority to bind Taco Bell to an implied in fact agreement to pay Plaintiffs if Taco Bell used the Psycho Chihuahua idea. However, Plaintiffs have shown that there is a genuine issue of material fact on the issue of authority as well. (*See* Waller Dep. at 181, Pls.' Dep. App; Letter from Alfaro to Colao of 1/4/99, Pls.' Suppl. Br. Ex. A.)

rights within the general scope of copyright.[4] If Taco Bell is correct, the case will end because Plaintiffs' implied in fact contract claim is the only possible "extra element" that can save their claims from preemption. Taco Bell initially raised this argument in a footnote in its opening brief, although it did not explicitly assert preemption as a ground for summary judgment in its motion. Because Taco Bell developed the argument more fully in its reply brief, the Court requested additional briefing from Plaintiffs on the issue.

In its previous opinions regarding Taco Bell's motions to dismiss, the Court held that Plaintiffs' claims met the first prong of the copyright preemption test because they "depend substantially upon works subject to copyright protection." *Wrench I*, 1998 WL 480871, at *4. With regard to the second prong of the test—whether the state law rights asserted by Plaintiffs are equivalent to any of the exclusive rights granted under § 106 of the Copyright Act—the Court held that Plaintiffs' misappropriation, unfair competition, and conversion claims were not preempted because Plaintiffs had alleged the existence of a legal relationship through an implied contract which provided the extra element needed to avoid preemption. *See id.* at *7-9. In its later opinion, the Court refined the scope of its initial ruling to hold that to the extent Plaintiffs alleged an implied in law or quasi-contract, such allegations were coextensive with Plaintiffs' unjust

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[4] Section 301 of the Copyright Act states, in relevant part:

> On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

17 U.S.C. § 301(a).

enrichment claim which the Court held to be preempted in its earlier opinion, and therefore could not provide the extra element needed to escape preemption. *See Wrench II*, 36 F. Supp.2d at 790-91. However, the Court held that Plaintiffs' implied in fact contract allegations were sufficient to meet the extra element test because an implied in fact contract requires mutual assent and consideration. *See id.* at 791 n. 2.

Not surprisingly, Plaintiffs argue that the Court should not consider Taco Bell's argument because the Court has already addressed and rejected the argument in its previous opinions. Taco Bell contends that the Court should address the argument because its prior opinions were rendered at the Rule 12(b)(6) stage when the Court was required to accept Plaintiffs' well-pleaded allegations as true. Now, Taco Bell argues, the case is at the summary judgment stage, which puts the issues in a different setting because the parties have had the opportunity to flesh out the contours of Plaintiffs' implied in fact contract allegations and the Court may consider matters outside of the pleadings. While "[q]uestions of federal preemption of state law generally are considered questions of law," *GTE Mobilnet of Ohio v. Johnson*, 111 F.3d 469, 475 (6th Cir.1997), the Court will address the preemption argument because Taco Bell's prior motions to dismiss did not focus specifically on the implied in fact contract claim, the preemption argument presents a question of fact in the sense that the Court must examine the precise nature of Plaintiffs' implied-in-fact contract, and, if Taco Bell is correct, an enormous amount of money, probably millions of dollars, will be spent pursuing and resisting an invalid theory.

A state law claim is preempted by the Copyright Act if: (1) the subject matter of the claim falls within the subject matter of copyright; and (2) the rights protected by the state law claim are equivalent to any of the exclusive rights granted by the Copyright Act. *See Del Madera Properties v. Rhodes &*

Gardner, 820 F.2d 973, 976-77 (9th Cir.1987), *overruled on other grounds, Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994). In this case, only the second prong of the preemption test is at issue because the Court has previously determined that Plaintiffs' claims fall within the subject matter of copyright.

To satisfy the second prong of the copyright preemption analysis, a state law claim must require proof of an extra element which makes the claim "qualitatively different" from a copyright infringement claim. *See Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1440 (9th Cir.1993) (quoting *Balboa Ins. Co. v. Trans Global Equities*, 218 Cal.App.3d 1327, 1342, 267 Cal.Rptr. 787, 796 (1990)).

> The statute [ ] requires that a state law create "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106" if it is to be preempted. . . . When a right defined by state law may be abridged by an act which, in and of itself, would infringe one of the exclusive rights, the state law in question must be deemed preempted. Conversely, when a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights involved are not equivalent and preemption will not occur.

Harper & Row Publishers, Inc. v. Nation Enters., 723 F.2d 195, 200 (2d Cir.1983) (citations omitted), *rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985). A state law claim is "qualitatively different" from a copyright claim only where the element changes the nature, rather than the scope, of the action. *See Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164-65 (1st Cir.1994). Exclusive rights granted by copyright law include rights of "reproduction; preparation of derivative works; distribution by sale, rental, lease or lending; public

performance, in the case of motion pictures or audiovisual works; and public display of individual images from motion pictures or audiovisual works." *Orson, Inc. v. Miramax Film Corp.*, 174 F.3d 377, 1999 WL 243617, at *10 (3d Cir.1999).

Taco Bell contends that the implied in fact contract in this case, which is essentially that Taco Bell would not use Plaintiffs' ideas and concepts without paying Plaintiffs compensation, is preempted because the rights which Plaintiffs seek to enforce are equivalent to the rights created under the Copyright Act. In support of its argument, Taco Bell relies principally upon the reasoning in *Endemol Entertainment B.V. v. Twentieth Television, Inc.*, 48 U.S.P.Q.2d 1524, 1998 WL 785300 (C.D.Cal.1998). The plaintiff in that case asserted claims for copyright infringement and breach of implied in fact contract based upon allegations that the defendant appropriated the ideas and format of the plaintiff's television show for a similar show which defendants created after engaging in discussions with the plaintiff. The plaintiff alleged that it "was understood . . . that Plaintiff would be compensated for any subsequent use of any ideas that might be used." *Endemol*, 48 U.S.P.Q.2d at 1525, 1998 WL 785300. The court found that the alleged promise was insufficient to meet the extra element test, reasoning that:

> Plaintiff's breach of implied contract claim falls squarely into the category of contract claims that allege no additional rights other than promising not to benefit from the copyrighted work. Plaintiff's breach of implied contract claim is based on Plaintiff's providing copies of "Forgive Me" to Goodson who "accepted" the benefit of Plaintiff's ideas by "disclosing" and "exploiting" them and "entering into an agreement to develop and produce Plaintiff's ideas and concepts" into a series, thus "interfer[ing] with Plaintiff's ability to exploit and license its television program in the United States." Plaintiff's claim asserts no violation of rights separate

> from those copyright law was designed to protect and, consequently, is preempted by federal law.

Id. at 1528. In reaching its conclusion, the court distinguished two cases cited by the plaintiff, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir.1996), and *National Car Rental System, Inc. v. Computer Associates International, Inc.*, 991 F.2d 426 (8th Cir.1993), which held that the contract claims asserted in those cases were not preempted, on the basis that those "cases involved *written* contracts that had specific promises that provided an 'extra element' beyond copyright law protections." *Id.* (italics in original).

Other courts have applied the same analysis used by the *Endemol* court in finding both express and implied in fact contracts preempted. In *Tavormina v. Evening Star Productions, Inc.*, 10 F.Supp.2d 729 (S.D.Tex.1998) (mem.op.), the plaintiffs alleged that the defendants breached a contract to pay them for using a photograph of their home to make a replica for a movie and for their time and inconvenience in making their house available to the defendants. The court held that the portion of the plaintiffs' claim which alleged that the defendants breached their contract by not compensating plaintiffs for displaying a copy of their house in the movie was preempted because it was "based upon the same types of allegations that would support a claim of copyright infringement." *Tavormina*, 10 F.Supp.2d at 734. However, the court found that the portion of the claim alleging that the defendants failed to pay the plaintiffs for their time and inconvenience was based on "broader allegations, beyond Defendants' mere copying and display of Plaintiffs' house," and therefore not preempted. *Id.*

In *American Movie Classics Co. v. Turner Entertainment Co.*, 922 F.Supp. 926 (S.D.N.Y.1996) the plaintiff alleged that the defendant breached the terms of an exclusive licensing agreement which provided the plaintiff with the exclusive right to display films. The court found that the

exclusivity provision in the licensing agreement did not satisfy the extra element test because the plaintiff would have to show that it had exclusive rights to establish its copyright claim and the breach of contract claim was not qualitatively different from a copyright claim. *See also American Movie Classics*, 922 F.Supp. at 931-32; *see also Wolff v. Institute of Elec. & Elec. Eng'rs, Inc.*, 768 F.Supp. 66, 69 (S.D.N.Y.1991) (finding breach of contract claim based upon written agreement preempted because claim based on the defendant's use of the plaintiff's photograph was not qualitatively different from copyright action); *Markogianis v. Burger King Corp.*, No. 95 CIV. 4627, 1997 WL 167113, at *5-6 (S.D.N.Y. Apr. 8, 1997) (concluding that the plaintiffs' claim which "allege[d] that a breach of an implied-in-fact contract occurred when [the defendant] misappropriated" the plaintiff's idea was not "a qualitatively different cause of action than copyright infringement").

Plaintiffs rely, in part, on the Seventh Circuit's decision in *ProCD*, in which the court of appeals reversed the district court's determination that the plaintiff's breach of contract claim based upon a shrinkwrap license was preempted. The court held that "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright,'" based upon the following distinction:

> Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights."

ProCD, 86 F.3d at 1454-55. The court provided several examples of typical contractual arrangements to illustrate its point that copyright preemption could easily subsume private contracts if contractual agreements are equated to exclusive

rights granted under the Copyright Act. However, despite its seemingly broad holding, the court stopped short of formulating a per se rule, stating that "we think it prudent to refrain from adopting a rule that anything with the label 'contract' is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee." *Id.* at 1455.

The court in *Architectronics, Inc. v. Control Systems, Inc.*, 935 F.Supp. 425 (S.D.N.Y.1996), relied on *ProCD* in holding that the plaintiff's breach of contract claim based upon a confidentiality agreement and a software license and development agreement were not preempted. The court criticized the reasoning in *American Movie Classics* that a breach of contract claim that asserts a right granted under copyright law is preempted, and held instead that a promise in a contract creates the extra element that differentiates a breach of contract claim from a copyright claim. *See Architectronics*, 935 F.Supp. at 441.

Plaintiffs also cite the recent case of *Katz Dochrermann & Epstein, Inc. v. Home Box Office*, No. 97 Civ. 7763, 1999 WL 179603, 1999 U.S.Dist. LEXIS 3971 (S.D.N.Y. Mar. 29, 1999), in which the court held that the plaintiff's breach of implied in fact contract claim, based upon the defendant's "promise to pay for the use of the idea alone, regardless of any subsequent rights [the plaintiff] may have acquired under the Copyright Act," was not preempted. *Katz*, 1999 WL 179603, at *4, 1999 U.S.Dist. LEXIS 3971, at *10. The court reasoned that the claim was not preempted because the allegation that the defendant "made an implied promise to pay for [the plaintiff's] idea is entirely separate and apart from any claim for copyright infringement involving literary work." *Id.*

The Court believes the *ProCD* and *Architectronics* cases are distinguishable from this case because they involved written contracts which contained promises that were not

equivalent to the exclusive rights granted under the Copyright Act. To the extent that their holdings can be interpreted to apply to implied in fact contracts such as the one in this case, the Court disagrees with their reasoning. Although the *ProCD* court stated that it was "refrain[ing] from adopting a rule that anything with the label 'contract' is necessarily outside the preemption clause," its holding that "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright'" is not far from an absolute rule against preemption of contract-denominated claims. *ProCD*, 86 F.3d at 1455. As part of its analysis, *ProCD* cited three previous court of appeals decisions which held that the contracts at issue were not preempted: *National Car Rental System, Inc.*, 991 F.2d 426 (8th Cir.1993), *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488 (5th Cir.1990), and *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923 (4th Cir.1988). The district court in *ProCD* disagreed with those decisions, but the court of appeals thought them "sound." *ProCD*, 86 F.3d at 1454. The problem with the *ProCD* district court's and court of appeals' treatments of these cases is that each court apparently interpreted them as flatly holding that breach of contract claims are not preempted. However, an examination of each of those cases reveals that the courts did not find that breach of contract claims are categorically not preempted; instead, each court examined the specific contractual rights at issue to determine whether they were equivalent to exclusive rights under the Copyright Act. For example, in *National Car Rental*, the court found that a restriction prohibiting the "processing of data for third parties" was not equivalent to an exclusive right under § 106. *National Car Rental*, 991 F.2d at 433. The *ProCD* courts did not engage in such an analysis.

Professor Nimmer, who is perhaps the leading commentator in the area of copyright law, notes that "contract-based rights themselves are typically not subject to preemption." 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*

§ 1.01[B][1][a] at 1-17 (1977). Yet, he believes that the *ProCD* holding is too broad:

> Having run through the trio of cases that underlay both the district and circuit courts' analysis in ProCD, it thus appears that the rule safeguarding contract causes of action against copyright pre-emption is less than categorical. Although the vast majority of contract claims will presumably survive scrutiny—as did each of the contract claims confronted in that trio—nonetheless pre-emption should continue to strike down claims that, though denominated "contract," nonetheless complain directly about the reproduction of expressive materials.

Id. at § 1.01[B][1][a] at 1-22. For these reasons, the Court finds the *Endenol* rationale to be persuasive. Regardless of whether a claim is denominated breach of implied in law contract (quasi-contract) or breach of implied in fact contract, the conclusion that the claim is preempted by the Copyright Act should be the same if the state law rights asserted are equivalent to the rights granted by the Copyright Act. The Court does not find the *Katz* case cited by Plaintiffs persuasive, either because it is distinguishable from the case at bar or the court reached the wrong result.

Sometimes implied in fact contracts are preempted, and sometimes implied in fact contracts are not preempted. It depends upon the precise contract right being asserted. In this particular case, this Court concludes that Plaintiffs' claims are preempted because they assert rights that are equivalent to the exclusive rights granted by the Copyright Act and no more. At oral argument, Plaintiffs' counsel stated that the promise which Taco Bell allegedly breached was that "if Taco Bell used Wrench's concepts and ideas, [it] would pay for them." (5/20/99 Hr'g Tr. at 22; *see also* 1st Am.Compl. 44.) The rights Plaintiffs are asserting are equivalent to rights under the Copyright Act because they are based upon Taco Bell's reproduction or use of Plaintiffs'

ideas for creation of derivative works. A promise not to use another's ideas and concepts without paying for them "is equivalent to the protection provided by section 106 of the Copyright Act." *Del Madera*, 820 F.2d at 977. Although rights may be created by a promise, whether express or implied, they do not render a claim for breach of that promise "qualitatively different" if they are infringed by the same conduct prohibited by the Copyright Act. *See Data Gen.*, 36 F.3d at 1165 (stating that a state law claim "is equivalent in substance to a copyright infringement claim where the additional elements merely concern *the extent to which* authors and their licensees can prohibit unauthorized copying by third parties" (italics in original)). Here, Taco Bell's alleged promise not to use Plaintiffs' ideas and concepts does not differ from the Copyright Act's prohibition against preparing derivative works from or displaying copyrighted works.

III. Independent Creation

Taco Bell also contends that it is entitled to summary judgment because it has shown that the idea to use a live Chihuahua for Taco Bell advertising was independently created by Williams and Bennett at Chiat/Day. In a case where the plaintiff alleges improper use of his ideas, the "defendant may rebut a prima facie case by showing that it independently created the allegedly misappropriated idea." *Kienzle v. Capital Cities/Am. Broad. Co.*, 774 F.Supp. 432, 436 (E.D.Mich.1991) (mem.op.); *see also Granoff v. Merrill Lynch & Co.*, 775 F.Supp. 621, 630 (S.D.N.Y.1991).

Taco Bell's proof of independent creation covers two fronts: (1) Taco Bell's Chihuahua was created by another source, namely, Chiat/Day, without knowledge of Plaintiffs' ideas and concepts; and (2) neither Chiat/Day nor the Taco Bell representatives who met with Chiat/Day had access to Plaintiffs' ideas and concepts. With regard to proof of creation by another source, Taco Bell does not dispute that it

has the burden of showing that the Chihuahua concept and commercials were independently created by another source. However, the parties disagree about which party has the burden of proof on the issue of access. The cases support both sides.

Ellis v. Diffie, 177 F.3d 503 (6th Cir.1999), addresses access and independent creation in the context of a copyright infringement claim. In *Ellis*, the United States Court of Appeals for the Sixth Circuit reviewed and affirmed findings of fact and conclusions of law made by the district court following a bench trial, in which the district court found that the plaintiff failed to establish copyright infringement. In its discussion, the Sixth Circuit indicated that access is typically an element that a plaintiff is required to prove. The court observed that because direct proof of copying is often difficult to obtain, "frequently the plaintiff will attempt to establish an inference of copying by showing (1) access to the allegedly-infringed work by the defendant(s) and (2) a substantial similarity between the two works at issue." *Ellis*, 177 F.3d at 505. The court also recognized that the degree of proof of access is inversely proportional to the strength of similarity between the two works at issue. *See id.* at 506. Thus, where there are few similarities between the works, stronger proof of access will be required. Conversely, "'[i]f the two works are so strikingly similar as to preclude the possibility of independent creation, "copying" may be proved without a showing of access.'" *Lipton v. Nature Co.*, 71 F.3d 464, 471 (2d Cir.1995) (quoting *Ferguson v. NBC, Inc.*, 584 F.2d 111, 113 (5th Cir.1978)).

In applying the affirmative defense of independent creation outside of the copyright context, courts often consider similarity and access as facets of the defendant's independent creation argument. For example, in *Kienzle*, the court found that the defendants rebutted any inference of misappropriation by establishing both that another person conceived

the idea for a television series which the plaintiff claimed was based on his work and that the defendants did not have access to the plaintiff's ideas. *See Kienzle*, 774 F.Supp. at 436, 437 n. 9. In addition, the court considered and rejected the plaintiff's claim that similarity precluded the possibility of independent creation. *See id.* at 437. Similarly, in *Ball v. Hershey Foods Corp.*, 842 F.Supp. 44 (D.Conn.1993), *aff'd* 14 F.3d 591 (2d Cir.1993), the court found that the defense of independent creation could be established "in at least two ways," either by proving lack of access or by showing that the ideas were dissimilar, "thereby precluding an inference that the defendant copied the plaintiff's idea." *Ball*, 842 F.Supp. at 48.

The foregoing cases demonstrate that a plaintiff's proof of access and a defendant's proof of lack of access are really two sides of the same coin. Because a plaintiff must prove access where the two works are not "strikingly similar," and a defendant must establish its defense that it lacked access to the plaintiff's ideas, both parties may be said to have the burden of proof. However, because the issue arises in connection with Taco Bell's motion for summary judgment, the proper focus in this case is whether Taco Bell has established that there is no genuine issue of material fact regarding Chiat/Day's lack of access, or stated otherwise, whether Plaintiffs have come forward with sufficient evidence to show that Chiat/Day had access to Plaintiffs' ideas.

A. Creation by Chiat/Day

In support of its independent creation defense, Taco Bell has presented evidence that Taco Bell's Chihuahua advertising campaign was conceived by Bennett and Williams of Chiat/Day, without knowledge of Plaintiffs' ideas and concepts for Taco Bell's use of Psycho Chihuahua in its advertising. In deposition testimony and by affidavit, Bennett and Williams provided the details of how and when they conceived the idea to use a Chihuahua in Taco Bell

advertising. Specifically, both witnesses testified that their idea to use a Chihuahua came to them one day in May 1997 while taking a break from working on the Taco Bell account to eat lunch, when they observed a Chihuahua trotting down the other side of the street with "no human sort of contact around him, no master, no owner, just completely a mission . . ." (Bennett Dep. at 203-204.) Bennett and Williams said that they found the dog "pretty funny" and "interesting" and mused that it might be "a great idea if he were after somebody eating Taco Bell." (*Id.* at 204; Williams Dep. at 174.) They took the idea back to their office and began to develop the idea. Within two weeks, Bennett and Williams presented a script or execution for a commercial using the Chihuahua idea, along with scripts for several other ideas, to Taco Bell representatives at a meeting held on June 2. (*See* Williams Decl. ¶ 8, Def's.App. A Ex. 26; A. Truscott Dep. at 51, Def.'s App. B2 Ex. 20; Pls.' App.Ex. 35.) In the Chihuahua script, a male Chihuahua was described as passing up a female Chihuahua in order to get to a person eating Taco Bell food, and then saying to the person, "Yo quiero Taco Bell." Within about a month after the June 2 meeting, Taco Bell ran its first Chihuahua commercial. (*See* Williams Decl. ¶ 9.)

Bennett and Williams also both deny having any knowledge about Psycho Chihuahua or Plaintiffs' ideas at the time they created their Chihuahua idea. (*See* Bennett Decl. ¶ 4, Def.'s App. A Ex. 3; Williams Decl. ¶ 7, Def.'s App. A Ex. 26.) Moreover, Bennett and Williams state that neither Taco Bell nor anyone else influenced or had input into their idea of using a Chihuahua for Taco Bell advertising. (*See* Bennett Decl. ¶¶ 4, 7; Williams Decl. ¶¶ 7, 12.)

The deposition testimony and declarations of Bennett and Williams are direct evidence that the Taco Bell Chihuahua campaign was independently conceived and developed by Bennett and Williams without any knowledge of Plaintiffs' ideas or Psycho Chihuahua. *Cf. Kienzle*, 774 F.Supp. at 436

(finding the defendant's uncontroverted evidence that the creator of the defendant's television show based her idea on her relationship with several priests and that no one involved in the creation or production of the show knew of the plaintiff's idea). Plaintiffs have failed to offer any direct evidence to rebut Bennett's and Williams' assertions.

Under the circumstances in this case, however, the Court finds that testimony from interested witnesses on the issue of independent creation is, by itself, insufficient to support summary judgment on the defense of independent creation. Such evidence may be sufficient to warrant summary judgment where it shows independent creation prior to the defendant's receipt of the plaintiff's ideas and is corroborated by documentary proof. *See, e.g., McGaughey v. Twentieth Century Fox Film Corp.*, 12 F.3d 62, 64-65 (5th Cir.1994) (finding in copyright case that the defendants could not have infringed the plaintiff's copyright because writer of allegedly infringing script had completed his work prior to the defendant's receipt of the plaintiff's work). In a case such as this, however, where the *possibility* of access exists because the defendant received the plaintiff's ideas prior to the date on which the defendant is able to show independent creation, any evidence regarding access and similarity should be considered in order to determine whether there remains any credible evidence to show improper use of the plaintiff's ideas.

B. Access

Access may be shown where there is a "reasonable possibility" that the defendant had the opportunity to view or copy the plaintiff's work. *See Gaste v. Kaiserman*, 863 F.2d 1061, 1066 (2d Cir.1988). "Establishing a 'bare possibility' of access is not enough." *Moore v. Columbia Pictures Indus., Inc.*, 972 F.2d 939, 942 (8th Cir.1992). "A mere possibility, speculation, or conjecture about access does not satisfy this standard." *Robinson v. New Line Cinema Corp.*, 42 F. Supp. 2d 578, 587 (D.Md.1999) (mem.op.).

In order to create a genuine issue of material fact with regard to access, Plaintiffs must show that someone at Taco Bell with access to their ideas conveyed those ideas to Chiat/Day. Taco Bell has presented evidence which shows that neither Alfaro, who had direct access to Plaintiffs' materials, nor the persons who worked in his department, transmitted Plaintiffs' materials, other than pictures of Psycho Chihuahua or Psycho Chihuahua figurines, to Chiat/Day. (*See* 2d Alfaro Decl. ¶ 12, Def.'s App.A.Ex. 2; Pollak Decl. ¶¶ 11-13; Def.'s App. A Ex. 18; Richards Decl. ¶¶ 6-8, Def.'s App. A Ex. 19; Nakamura Decl. ¶¶ 7-9, Def.'s App. A Ex. 16.) Taco Bell has also presented evidence which shows that Taco Bell employees outside of the Alfaro group had access only to pictures of the Psycho Chihuahua cartoon dog. (*See, e.g.*, Hill Decl. ¶¶ 4-5, Def.'s App. A Ex. 12; Stack Decl. ¶¶ 5-6, Def.'s App. Ex. 24; Waller Decl. ¶ 4, Def.'s App. A Ex. 25.) Finally, Taco Bell's evidence indicates that no Taco Bell employee suggested to or encouraged Chiat/Day to use Psycho Chihuahua, a dog, an animal, or any other type of character in its advertising. (*See* Hill Decl. ¶¶ 7-8; Waller Decl. ¶¶ 5-6.)

Despite Taco Bell's evidence, there is circumstantial evidence in the record from which a trier of fact could infer that a Taco Bell employee who had contact with Chiat/Day and Alfaro or a member of his group had the opportunity to receive or view Plaintiffs' ideas through such contact and passed those ideas along to Chiat/Day.[5] For example, over the course of about one year, Alfaro had several opportunities to speak about Psycho Chihuahua with Vada Hill, one of Taco Bell's principal contacts with Chiat/Day. Plaintiffs

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[5] Plaintiffs' proof is based in large part upon the "corporate receipt" doctrine, which provides that an inference of access may arise based on the fact that the plaintiff's materials were received at a corporate defendant's principal offices. *See Moore*, 972 F.2d at 942; *Bevan v. Columbia Broad. Sys., Inc.*, 329 F.Supp. 601, 609-10 (S.D.N.Y.1971).

have shown that Alfaro and Pollak met with Hill on at least one occasion—the December 5, 1996, meeting—to discuss licensing ideas, which included Psycho Chihuahua. In addition, the fact that Alfaro contacted Hill in June 1997 in order to transmit Plaintiffs' drawings and other materials to Chiat/Day also demonstrates a link between Alfaro and Chiat/Day from which it could be reasonably inferred that Plaintiffs' ideas were passed by Alfaro to Hill and by Hill to Chiat/Day.

C. Similarity

Plaintiffs argue that their evidence of access is bolstered by the strong similarities between their Psycho Chihuahua ideas and Taco Bell's actual commercials. The Court disagrees with Plaintiffs that there are strong similarities between Psycho Chihuahua, or Plaintiffs' ideas based on Psycho Chihuahua, and Taco Bell's Chihuahua.[6] However,

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[6] The Court finds that there are only minor similarities between the storyboards that Plaintiffs furnished to Alfaro and the actual Taco Bell commercials. The storyboards that Plaintiffs sent to Alfaro in September 1996 show a Chihuahua that is physically aggressive and actually steals or grabs Taco Bell food. In one storyboard, two young men are in a jeep vehicle preparing to eat their Taco Bell food when Psycho Chihuahua leaps into the vehicle and grabs their bag. The story ends with Psycho Chihuahua slamming into the vehicle and tearing the roof off. Another storyboard opens with a bag of Taco Bell food being placed in a street and the "Running of the Bulls" in Pamplona, Spain, proceeding towards the bag. The idea is that the bulls are chasing the people and Psycho Chihuahua is chasing the bulls to get to the Taco Bell food. After the crowd and the bulls rush past the bag, Psycho Chihuahua grabs the bag and is gone in a flash. A third storyboard shows Psycho Chihuahua swinging Godzilla around by his tail in order to save Taco Bell. The storyboards that Plaintiffs presented to Alfaro in April 1997 are slightly different from the September 1996 storyboards because Psycho Chihuahua appears less aggressive and is shown with his masters, who try not to let the dog know they have, or are going to get, Taco Bell food.

Taco Bell's commercials are thematically different from Plaintiffs' ideas shown on the storyboards. Taco Bell's Chihuahua is not physically

the Court finds that Plaintiffs' ideas are not so dissimilar to Taco Bell's Chihuahua and commercials as to preclude any possibility of access, especially in light of the circumstantial evidence discussed above. Therefore, the Court finds that Taco Bell is not entitled to summary judgment on its defense of independent creation.

IV. Novelty

Taco Bell's final argument in support of its motion is that Plaintiffs' ideas were not novel. In order for Plaintiffs to establish their claims in this case, they must prove that their ideas were novel or original. *See Wrench II*, 36 F.Supp.2d at 790. A plaintiff who seeks to establish novelty "must demonstrate some basis in fact to establish the originality or novelty of its idea." *M.H. Segan Ltd. Partnership v. Hasbro, Inc.*, 924 F.Supp. 512, 524 (S.D.N.Y.1996).

> To establish novelty, a plaintiff's idea "need not reflect the 'flash of genius,' but it must show [ ] genuine novelty and invention, and not a merely clever or useful adaptation of existing knowledge." While even original ideas combine elements that are themselves not novel, novelty cannot be found where the idea consists of nothing more than a variation on a basic theme. In addition, a plaintiff may not claim that an idea is original if it was already in use in the industry at the time of submission.

AEB & Assocs. Design Group, Inc. v. Tonka Corp., 853 F.Supp. 724, 734 (S.D.N.Y.1994) (mem.op.) (holding that "Jet Art" toy used for spray painting was similar to designs of other airbrush toys and was "nothing more than a 'clever or useful adaptation of existing knowledge'") (citations omitted) (alteration in original). An idea that merely incorporates two

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aggressive and does not grab or steal Taco Bell food. The Taco Bell Chihuahua does not have a master. In short, similarity exists only because Plaintiffs and Taco Bell both used the same breed of dog—Chihuahua—and Taco Bell food.

pre-existing ideas is not considered novel. *See Kienzle*, 774 F.Supp. at 438 n. 13. A defendant may be entitled to summary judgment on the issue of novelty if "the idea is (i) merely a clever or useful adaptation of existing knowledge; (ii) nothing more than a variation on a basic theme; or (iii) already in use in the industry at the time that the idea was submitted." *Nadel v. Play By Play Toys & Novelties, Inc.*, 34 F.Supp.2d 180, 184 (S.D.N.Y.1999) (granting summary judgment on the basis that the plaintiff's idea for a plush toy with an internal vibration mechanism was already in use in the industry).

Based upon the evidence in the record, the Court finds that Plaintiffs' ideas were not novel because they merely combined themes and executions that had been used many times in a variety of commercials for different products.[7] For example, one video tape submitted by Taco Bell contains several examples of commercials featuring Chihuahuas, one of which was a commercial for Salsa that played on a Mexican theme. Another video tape contains examples of commercials using bobbing head dolls in cars, which Plaintiffs claim was their idea. Still, another video tape shows various commercials which use specific tag lines identifying the product with the company. The idea of a talking Chihuahua with an attitude is also not new. Two Walt Disney films, "Oliver & Company" and "Lady and the Tramp," feature cartoon Chihuahua characters, both of which are endowed with Spanish accents and "attitudes."

In addition, the characteristics of Plaintiffs' Psycho Chihuahua (even as adapted for Taco Bell's usage) were not

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[7] The Court has reviewed several video tapes submitted by Taco Bell which contain different commercials using a variety of repetitive themes, concepts, and ideas. Like Taco Bell's Chihuahua commercials, the commercials used bobbing head dolls, talking animals, consistent tag lines, and even the theme of boy passing up girl (or man passing up woman or vice versa) in favor of the product.

unique to Taco Bell's marketing efforts. As part of their similarity argument, Plaintiffs presented the following table comparing characteristics between Psycho Chihuahua and Taco Bell's Chihuahua:

Psycho Chihuahua	Taco Bell Chihuahua
Unique	Unique
Feisty/has attitude	Has attitude
Edgy	Quirky
Confident/able to take on any situation	Master of his 'Hood
Clever	Clever
Funny; humorous	Humorous
Cool, strong male	19 year old trapped in a dog's body
Spicy Mexican personality	Lively salsa music

(Pls.' Br. at 41.) [8] However, as demonstrated by the following table, the characteristics shared by the two dogs are descriptive of the Taco Bell brand:

05/16/96 Hakan Proposal	Psycho Chihuahua	Taco Bell Chihuahua
Innovative	Unique	Unique
Attitude	Feisty/has attitude	Has attitude
Edgy	Edgy	Quirky
Drive	Confident/able to take on any situation	Master of 'Hood
Fast; Innovative	Clever	Clever
—	Funny; humorous	Humorous
Hip; Youthful	Cool, strong male	19 year old trapped in a dog's body
Spicy; Mexican; Southwestern	Spicy Mexican personality	Lively salsa music

[8] The Psycho Chihuahua traits are based on descriptions in marketing boards and other items which Plaintiffs furnished to Alfaro. (*See* Pls.' App. Exs. 7, 8.) The traits of Taco Bell's Chihuahua are based on descriptions contained in Chiat/Day documents. (*See* Pls.' App. Ex. 43.)

The descriptions set forth in the left hand column, which mimic the descriptions of Psycho Chihuahua and Taco Bell's Chihuahua shown in the previous table, were taken from a May 16, 1996, proposal submitted to Taco Bell by Brian P. Hakan & Associates—currently Taco Bell's licensing agent—in connection with its bid to become Taco Bell's licensing agent. (*See* Def.'s App. D Ex. 10 at BPH1848.) Those terms were used by Brian P. Hakan & Associates to describe Taco Bell's brand "equities." Given that Taco Bell's brand image was established before Plaintiffs' first contact in June 1996 with Alfaro and Taco Bell, Psycho Chihuahua's characteristics (as adapted for Taco Bell's usage) were not novel or unique.

Conclusion

For the foregoing reasons, the Court will grant summary judgment to Taco Bell on all of Plaintiffs' claims.

An Order consistent with this Opinion will be entered.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

[FILED Sep. 13, 2001]

99-1807

WRENCH LLC, A Michigan Limited Liability Company, *et al.*,
Plaintiff-Appellants,

v.

TACO BELL CORP.,
Defendant-Appellee.

ORDER

BEFORE: BATCHELDER and COLE, Circuit Judges; and GRAHAM,* District Judge.

The court having received a petition for rehearing en banc, and the petition having been circulated not only to the original panel members but also to all other active judges of this court, and no judge of this court having requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were fully considered upon the original submission and decision of the case. Accordingly, the petition is denied.

ENTERED BY ORDER OF THE COURT

/s/ Leonard Green
LEONARD GREEN, Clerk

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* Hon. James L. Graham, United States District Judge for the Southern District of Ohio, sitting by designation.

APPENDIX D

17 U.S.C. § 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

(2) musical works, including any accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works;

(7) sound recordings; and

(8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2544; Pub.L. 101-650, Title VII, § 703, Dec. 1, 1990, 104 Stat. 5133.)

17 U.S.C. § 103. Subject matter of copyright: Compilations and derivative works

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2545.)

17 U.S.C. § 106. Exclusive rights in copyrighted works

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2546; Pub.L. 101-318, § 3(d), July 3, 1990, 104 Stat. 288; Pub.L. 101-650, Title VII, § 704(b)(2), Dec. 1, 1990, 104 Stat. 5134; as amended Pub.L. 104-39, § 2, Nov. 1, 1995, 109 Stat. 336; Pub.L. 106-44, § 1(g)(2), Aug. 5, 1999, 113 Stat. 222.)

17 U.S.C. § 301(a) & (b). Preemption with respect to other laws

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

(2) any cause of action arising from undertakings commenced before January 1, 1978;

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106; or

(4) State and local landmarks, historic preservation, zoning, or building codes, relating to architectural works protected under section 102(a)(8).

* * * *

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2572; Pub.L. 100-568, § 6, Oct. 31, 1988, 102 Stat. 2857; Pub.L. 101-650, Title VI, § 605, Title VII, § 705, Dec. 1, 1990, 104 Stat. 5131, 5134; as amended Pub.L. 105-298, Title I, § 102(a), Oct. 27, 1998, 112 Stat. 2827.)

17 U.S.C. § 504. Remedies for infringement: Damages and profits

(a) In General.—Except as otherwise provided by this title, an infringer of copyright is liable for either—

(1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or

(2) statutory damages, as provided by subsection (c).

(b) Actual Damages and Profits.—The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) Statutory Damages.—

(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

(2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in subsection (g) of section 118) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

(d) Additional damages in certain cases.—In any case in which the court finds that a defendant proprietor of an establishment who claims as a defense that its activities were exempt under section 110(5) did not have reasonable grounds to believe that its use of a copyrighted work was exempt under such section, the plaintiff shall be entitled to, in addition to any award of damages under this section, an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff for such use during the preceding period of up to 3 years.

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2585; Pub.L. 100-568, § 10(b), Oct. 31, 1988, 102 Stat. 2860; as amended Pub.L. 105-80, § 12(a)(13), Nov. 13, 1997, 111 Stat. 1535; Pub.L. 105-298, Title II, § 204, Oct. 27, 1998, 112 Stat. 2833; Pub.L. 106-160, § 2, Dec. 9, 1999, 113 Stat. 1774.)

No. 01-701

Supreme Court U.S.
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In The Supreme Court of the United States

TACO BELL CORPORATION, *Petitioner*,

v.

WRENCH LLC, JOSEPH SHIELDS, AND THOMAS RINKS,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR THE RESPONDENTS IN OPPOSITION

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QUESTION PRESENTED

Whether § 301 of the Copyright Act preempts a state law contract containing an implied-in-fact promise to pay for the use of copyright subject matter?

RULE 29.6 STATEMENT

Pursuant to Supreme Court Rule 29.6, Respondent Wrench LLC has no parent corporation and issues no stock. Respondents Joseph Shields and Thomas Rinks are individuals.

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BRIEF FOR THE RESPONDENTS IN OPPOSITION

Petitioner seeks to invalidate a state law implied-in-fact contract simply because the contract relates to intellectual property. Petitioner claims the contract is preempted by § 301 of the Copyright Act. The Sixth Circuit ruled against preemption and upheld the contract, using the "extra element" test employed by all the courts of appeals in analyzing preemption under § 301. The Sixth Circuit reversed summary judgment for Petitioner and remanded the case to the district court for further proceedings.

Petitioner asserts a conflict between the Sixth Circuit here and other courts of appeals. But there is no conflict. The Sixth Circuit's ruling below is the ***only*** court of appeals ruling on preemption of implied-in-fact contracts under § 301. Petitioner relies on pure dictum in the Sixth Circuit's opinion to fabricate its asserted conflict.

STATEMENT OF THE CASE[1]

I. NATURE OF THE CASE.

Respondents seek their expectation damages under an implied-in-fact contract, Pet. App. 8a-9a, in which (1) they created and disclosed to Petitioner a marketing concept featuring a live Chihuahua obsessed with Taco Bell food, and (2) Petitioner promised to pay for its use of the concept in its advertising and marketing, *see id.* at 2a-4a, 38a-41a. Petitioner used Respondents'

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[1]Because the Petition arises from summary judgment under Rule 56, this Court "must draw all reasonable inferences in favor of" and "should give credence to the evidence favoring" Respondents, the nonmoving party. *Reeves v. Sanderson Plumbing Products, Inc.*, 530 U.S. 133, 150-51, 120 S. Ct. 2097 (2000) (discussing Rule 50, which "mirrors" Rule 56).

Chihuahua concept and related ideas as intended by the parties' implied-in-fact agreement, *id.* at 21a, but then breached the agreement by failing to pay for such use as promised, *id.* at 15a.

Petitioner tries to characterize this case as one seeking redress for unauthorized use of Respondents' "Psycho Chihuahua" cartoon caricature, *i.e.* a case akin to one for copyright infringement. Pet. 3-5, 11. But that mischaracterizes the case for two fundamental reasons. First, the work product at issue is not the cartoon caricature. It is the live Chihuahua concept created and disclosed to Petitioner under the parties' implied-in-fact contract. Pet. App. 3a-5a. Second, Petitioner's use of Respondents' concept and related ideas did not breach the contract. *Id.* at 15a. To the contrary, the very purpose of the contract was Petitioner's use of the Chihuahua concept, and Respondents worked diligently for one year to produce a marketing concept specifically designed to promote Petitioner's food products. *See id.* at 2a-6a.

II. STATEMENT OF FACTS.

Two of Petitioner's officers—Rudy Pollack, vice-president, and Ed Alfaro, creative services manager—approached Respondents Thomas Rinks and Joseph Shields in June 1996 at a licensing exposition in New York to discuss Respondents' cartoon caricature "Psycho Chihuahua." Pet. App. 2a. Thereafter, for approximately one year, Petitioner solicited Respondents to create a marketing concept and advertising ideas derived from this Chihuahua character. In response to Petitioner's solicitations, Respondents adapted the character into one specifically suited for Petitioner's marketing needs and presented Petitioner with numerous advertising and promotional ideas based on the adapted Chihuahua character. *See id.* at 2a-6a. Petitioner solicited and Respondents disclosed the Chihuahua concept and related ideas pursuant to a

mutual understanding that Petitioner would pay for any use it might make of them. *Id.* at 3a-4a, 39a.

This one-year business relationship between Petitioner and Respondents includes the following highlights:

- In July 1996, Respondents told Petitioner that a live Chihuahua manipulated by computer graphic imaging should be used in television commercials. The dog would exhibit the general personality of the carton caricature—a small dog with a big dog attitude—but would now be obsessed with Taco Bell food. Pet. App. 2a-3a.

- In November 1996, Respondents' licensing agents met with Petitioner to discuss Petitioner's use of Respondents' evolving Chihuahua character and marketing ideas. Pet. App. 31a. Petitioner requested a specific licensing proposal from Respondents. *Id.*

- On November 18, 1996, Respondents sent Petitioner a detailed licensing proposal, providing a specific basis for calculating fees to be paid to Respondents for Petitioner's use of the Chihuahua-based marketing concept. Pet. App. 4a, 32a. Petitioner did not accept or reject the proposal. *Id.* But the parties continued to discuss Petitioner's use of Respondents' concept and ideas. *Id.* at 32a.

- On February 6, 1997, Petitioner met with Respondents, and Respondents presented Petitioner with their ideas for a full advertising, licensing, and promotional campaign featuring a live Chihuahua manipulated by computer technology. Pet. App. 4a, 32a. Respondents presented orally specific ideas for television commercials, including a male dog passing by a female dog to get to Taco Bell food. *Id.*

- On April 4, 1997, Respondents' licensing agents made a formal presentation of the Chihuahua concept to Petitioner, including storyboards depicting Respondents' ideas for television commercials and samples of uniform designs, T-shirts, food wrappers, posters, and cup designs. Pet. App. 5a, 33a.

- In July 1997, Petitioner aired a television commercial featuring a live Chihuahua manipulated by computer technology. In it, a male dog passes by a female dog to get to a person eating Taco Bell food. Pet. App. 5a-6a, 34a-36a.

- The Chihuahua commercial was well-received. Petitioner then made the Chihuahua character the focus of a national advertising campaign, which proved to be very successful. Pet. App. 6a, 36a.

III. PROCEEDINGS BELOW.

In the district court, Petitioner sought summary judgment regarding Respondents' implied-in-fact contract claim on three grounds: (1) the evidence does not create a triable issue on the existence of a contract implied-in-fact, Pet. App. 38a-41a; (2) the evidence establishes conclusively that Petitioner's advertising agency independently created the Chihuahua marketing concept, *i.e.*, that Petitioner did not use Respondents' concept and ideas, *id.* at 51a-58a; and (3) even if the parties' conduct created an implied-in-fact contract, and even if Petitioner used Respondents' work pursuant to the contract, Respondents' claim for breach of the contract is preempted by § 301 of the Copyright Act, *id.* at 41a-51a.

The district court ruled against Petitioner on the first ground, holding that Respondents "presented sufficient evidence to create a genuine issue of material fact regarding whether an implied in fact

contract existed between the parties." Pet. App. 41a. Critical to the court's holding was Petitioner's concession that the parties had a mutual understanding of compensation for use: if Petitioner used Respondents' concept and ideas, Petitioner "would compensate [Respondents] for the fair value of such use." *Id.* at 39a.

The district court also ruled against Petitioner on the second ground, holding that the record contains sufficient evidence to support the allegation that Petitioner used Respondents' creative work in producing commercials featuring a live Chihuahua obsessed with Taco Bell food. Pet. App. 51a-58a. A reasonable inference exists that Petitioner "passed" Respondents' concept and ideas to its advertising agency, the alleged independent creator. *Id.* at 57a.

But the district court ruled for Petitioner on the third ground, holding that § 301 preempts Respondents' contract claim. Pet. App. 41a-51a. The court concluded that Respondents' contract rights "are equivalent to the exclusive rights granted by [§ 106 of the] Copyright Act." *Id.* at 50a.

The district court premised its preemption holding on a patent mischaracterization of Respondents' contract claim. The court ignored the compensation element of the contract and viewed Petitioner's implied-in-fact promise as a prohibitory "promise not to use [Respondents'] ideas and concepts," Pet. App. 51a, rather than an affirmative promise to pay for the contractual right to use Respondents' work. This mischaracterization led the court to conclude that the contract implied-in-fact did nothing more than prohibit conduct already prohibited by § 106 of the Copyright Act: "Here, [Petitioner's] alleged promise not to use [Respondents'] ideas and concepts does not differ from the Copyright Act's prohibition against preparing derivative works from or displaying copyrighted works." *Id.*

On appeal, the Sixth Circuit affirmed the "implied-in-fact contract" and "use" holdings of the district court, Pet. App. 8a-9a, 21a, but reversed the court's preemption ruling, *id.* at 13a-21a. The court recognized the compensation element of the contract, *id.* at 20a (The "implied-in-fact contract claim contains the essential element of expectation of compensation."), and properly characterized Petitioner's implied-in-fact promise, not as a promise to refrain from using Respondents' creative work, but as a promise to pay for its use of such work, *id.* at 15a ("The gist of [Respondents'] state law implied-in-fact contract claim is breach of an actual promise to pay for [Respondents'] creative work.").

Having properly determined the nature of the promise at issue, the Sixth Circuit reasoned that (1) Petitioner breached the contract by failing to pay as promised, not by "use of the work alone," *id.*; (2) Petitioner's promise to pay is an extra element of the contract claim, as compared to a claim for copyright infringement, an element "in addition to the acts of reproduction, performance, distribution, or display" protected by § 106, *id.*; and (3) the promise to pay makes the contract claim "qualitatively different from a copyright infringement claim," the qualitative difference being "the requirement of proof of an enforceable promise and a breach thereof which requires, *inter alia*, proof of mutual assent and consideration, as well as proof of the value of the work and [Petitioner's] use thereof," *id.*

REASONS FOR DENYING THE PETITION

No compelling grounds exist for grant of certiorari. The issue presented is whether § 301 of the Copyright Act preempts state law contracts containing an implied-in-fact promise to pay for the use of copyright subject matter. The Sixth Circuit recognized that implied-in-fact contracts are actual contracts requiring proof of the same elements as express contracts, and joined five other courts of

appeals in holding against contract preemption under § 301, a position consistent with the historic power of the states over private contracts.

Petitioner patently misstates the law in attempting to manufacture a split in the courts of appeals. Section 301 does not call for a comparison of state law remedies with the remedy provisions of the Copyright Act. Rather, § 301 asks whether the right being asserted under state law is equivalent to one of the five exclusive rights set forth in § 106 of the Act. The Sixth Circuit correctly held that when an author sells a work under private contract, the author's contractual right to be paid is not equivalent to the author's right under § 106 to be the only person permitted to reproduce, adapt, publish, perform, or display the work. The Sixth Circuit's passing reference to remedies was immaterial to its holding and constitutes nothing more than dictum.

Here, preemption itself, rather than state law, would stand "as an obstacle to the accomplishment and execution of the full purposes and objective of Congress." *California v. ARC Am. Corp.*, 490 U.S. 93, 100-01 (1989). Implied-in-fact contracts are actual consensual agreements requiring mutual assent and consideration. And contracts are the means by which authors capitalize on their copyright monopolies, monopolies "designed to assure contributors to the store of knowledge a fair return for their labors." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 546 (1985). In other words, in enacting the Copyright Act, Congress cannot have intended to grant authors monopoly rights as an economic incentive to spur creative effort, and, at the same time, have intended to preempt state law commercial contracts, the primary means by which authors can economically exploit their monopoly rights and earn a profit from their works.

I. THIS CASE IS ILL-SUITED FOR SUPREME COURT REVIEW.

A. Because this Case Presents an Issue of First Impression in the Courts of Appeals, It Should Not Be Reviewed by this Court.

The Sixth Circuit correctly stated that "[t]his case raises a question of first impression." Pet. App. 1a. No other court of appeals has opined regarding the applicability of § 301 of the Copyright Act to implied-in-fact contracts under state law. Such *sui generis* status makes this case inappropriate for Supreme Court review for three reasons.

1. The courts of appeals are not in conflict.

A core ground for granting certiorari is a conflict among the courts of appeals. *See Northwest Airlines, Inc. v. Duncan*, 531 U.S. 1058, 121 S. Ct. 650, 650 (2000) (O'Connor, J., dissenting from denial of certiorari) ("The Courts of Appeals . . . have taken directly conflicting positions on this question.") The issue presented here, however, is one of first impression in the courts of appeals, and there is thus no conflict among them. The Sixth Circuit ruled that § 301 does not preempt implied-in-fact contracts containing a promise to pay for the use of copyright subject matter. No court of appeals has held otherwise. In fact, no court of appeals has held that § 301 preempts any contract, express or implied-in-fact. To the contrary, every court of appeals addressing the issue of contract preemption under § 301 has ruled against preemption. *See Lipscher v. LRP Publ'ns Inc.*, 266 F.3d 1305, 1318-19 (11th Cir. 2001) (newsletter subscription agreement); *ProCD, Inc. v. Zeindenberg*, 86 F.3d 1447, 1449-55 (7th Cir. 1996) (software license agreement); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 431-435 (8th Cir.

1993) (software license agreement); *Taquino v. Teledyne Monarch Rubber*, 893 F.3d 1488, 1501 (5th Cir. 1990) (sales and manager agreement); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988) (architecture services agreement).

The Sixth Circuit did not create a conflict here. Rather, it created unanimity among the courts of appeals. The Sixth Circuit correctly recognized that an implied-in-fact contract "'is a consensual agreement presenting the same elements as are found in an express contract,'" Pet. App. 19a (quoting 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 16.03, at 16-11 (2000) [hereinafter *Nimmer*]), and joined the Fourth, Fifth, Seventh, Eighth, and Eleventh Circuits in holding against § 301 preemption of state law contracts. Such unanimity among the courts of appeals finds support in this Court's pronouncement in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979): "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property." It finds support in the legislative history of § 301: "Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breach of contract." H.R. Rep. No. 94-1476, at 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748. (For a full discussion of § 301's legislative history, *see Nat'l Car Rental Sys.*, 991 F.2d at 433-34.) And it finds support in the leading commentary on copyright law:

> [A] breach of contract action (*whether such contract involves a mere idea or a fully developed literary work*) is not predicated upon a right that is "equivalent to any of the exclusive rights within the general scope of copyright . . . ." This for the reason that a contract right may not be claimed unless there exists an element in addition to the mere acts of reproduction, performance, distribution

> or display. *That additional element is a promise (express or implied) upon the part of defendant.*

4 *Nimmer* § 16.04[C], at 16-25 (emphasis added).

2. An issue of immediate public importance is not presented.

A second core ground for granting certiorari is the public importance of the issue presented. *See Rice v. Sioux City Mem'l Park Cemetery, Inc.*, 349 U.S. 70, 79 (1955) ("[T]he question was of importance merely to the litigants and did not present an issue of immediate public significance."). In the circumstances presented here, however, the *sui generis* nature of this case evidences its lack of immediate public importance. Section 301 of the Copyright Act became effective on January 1, 1978. 17 U.S.C. § 301(a). From that date until July 6, 2001, the date of the decision below, no court of appeals addressed the applicability of § 301 to implied-in-fact contracts arising under state law. Such contracts and the Copyright Act have peacefully coexisted for over 22 years. Certainly, if state law implied-in-fact contracts posed a serious obstacle to the purposes of the Copyright Act, or significantly interfered with the marketplace for intellectual property, the question of § 301 preemption would have been before the courts of appeals on numerous occasions during the last 22 years. But the question has not been before the courts of appeals at all except for this case.

Far from presenting an issue of immediate public importance, the Sixth Circuit's decision merely continues the law as it has existed for many years without appellate comment. The decision does not change the law or modify existing precedent. Review by this Court is unwarranted.

3. The issue presented is not mature.

This Court often practices judicial restraint, waiting until an issue matures through study and interpretation by a number of lower courts before it undertakes review of the issue. *See Durden v. California*, 121 S. Ct. 1183, 1183 (2001) (Souter, J., dissenting from denial of certiorari) ("[R]ulings by other courts . . . would be valuable to us in any examination of the issue we might ultimately give it."); *Lackey v. Texas*, 514 U.S. 1045, 115 S. Ct. 1421, 1422 (1995) (Stevens, J., respecting denial of certiorari) ("[A] denial of certiorari on a novel issue will permit the state and federal courts to 'serve as laboratories in which the issue receives further study before it is addressed by this Court.'" (quoting *McCray v. New York*, 461 U.S. 961, 963 (1983) (Stevens, J., respecting denial of certiorari))).

Here, the Court's practice of judicial restraint will be wisely exercised. This case presents an issue of first impression. A three judge panel decided the case on a 3–to–0 vote. *En banc* consideration was denied. The issue presented has not been studied in a number of cases by several courts of appeals, it is not mature, and it is thus not well suited for Supreme Court review. *Cf. Northwest Airlines, Inc. v. Duncan*, 531 U.S. 1058, 121 S. Ct. 650, 651 (2000) (O'Connor, J., dissenting from denial of certiorari) ("The legal issue is . . . well suited for resolution by this Court. The two leading cases . . . are both the product of en banc consideration. They have fully explained the relevant considerations, including the language and history of the ADA and its pre-emption clause, as well as the policies supporting the possible interpretations . . . ."). This Court should exercise judicial restraint and allow this issue of first impression to mature through further lower court consideration.

B. Because the Sixth Circuit Remanded this Case, It Should Not Be Reviewed by this Court.

This Court's normal practice is to deny review before final judgment in the lower courts. *Va. Military Inst. v. United States*, 508 U.S. 946, 113 S. Ct. 2431, 2432 (1993) (Scalia, J., respecting denial of certiorari) ("We generally await final judgment in the lower courts before exercising our certiorari jurisdiction."). A case remanded by the court of appeals is not considered ripe for Supreme Court review. *Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R.*, 389 U.S. 327, 328 (1967) (per curiam) ("[B]ecause the Court of Appeals remanded the case, it is not yet ripe for review by this Court."). Here, the Sixth Circuit reversed the district court's grant of summary judgment in Petitioner's favor and remanded the case for further proceedings. Pet. App. 27a. The case is thus not ripe for review, and this Court should follow its normal practice and deny certiorari.

Significantly, at least three possible scenarios on remand will render Petitioner's preemption issue moot, evidencing that Supreme Court review at this stage of the case is premature. First, Petitioner concedes that § 301 does not preempt a state law contract having specific terms, "whether the contract is express or implied by the actions of the part[ies]." Pet. 12. Respondents made a written proposal to Petitioner in this case, containing specific terms governing Petitioner's use of Respondents' Chihuahua concept. Pet. App. 4a. On remand, the jury will be entitled to find that

Petitioner became bound by the specific terms of this written proposal.[2] Second, the jury may find that the parties' conduct did not evidence an implied-in-fact contract at all. Finally, the jury may find that Petitioner independently created its Chihuahua-based marketing campaign. In short, upon a complete presentation of the evidence and evaluation by the finders of fact, the preemption issue may disappear. This Court should thus deny certiorari here and wait for a case with a complete factual record before addressing the issue of § 301 preemption of state law implied-in-fact contracts.

II. THE DECISION BELOW DOES NOT CONFLICT WITH A DECISION OF ANY OTHER COURT OF APPEALS.

Petitioner asserts a conflict between the Sixth Circuit here and other courts of appeals. But three points strip the asserted conflict of all relevance to the question of certiorari. First, as discussed in

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[2] "An offeree who does any act inconsistent with the offeror's ownership of offered property is bound in accordance with the offered terms." Restatement (Second) of Contracts § 69(2). *See Landham v. Galoob Toys, Inc.*, 227 F.3d 619, 624 (6th Cir. 2000) ("[P]arties may be bound by the terms of an unsigned contract when their actions demonstrate assent to the agreement."). For example, a buyer who goes into a market and asks and is told the price of an orange cannot take the orange and say "I will not pay your price, but will pay something less." The buyer, by taking the orange, becomes liable for the stated price. *Desny v. Wilder*, 299 P.2d 257, 268 (Cal. 1956). Here, Respondents presented Petitioner with a written proposal for Petitioner's use of their ideas, including price terms. Pet. App. 4a. Petitioner did not expressly accept or reject the proposal. *Id.* But Petitioner thereafter used Respondents' ideas in its television commercials, thereby becoming bound by Respondents' written proposal.

section II.A. below, the Sixth Circuit correctly interpreted § 301 of the Copyright Act, concluding that the crux of the contract claim here, Petitioner's failure to make contractual payment, is qualitatively different than the crux of a copyright claim, a violation of one of the five exclusive rights set forth in § 106 of the Copyright Act. No other court of appeals has opined on the relationship between a contractual right of payment, on the one hand, and the exclusive § 106 rights, on the other hand, for purposes of § 301 preemption. There is, therefore, no conflict among the courts of appeals.

Second, as discussed in section II.B. below, Petitioner attempts to manufacture a circuit split based not on the Sixth Circuit's holding regarding the qualitative difference between § 106 and state contract rights, but on the Sixth Circuit's discussion in dictum of copyright and contract remedies. It is this dictum and only this dictum that Petitioner points to as creating a conflict. But dictum cannot create the actual and direct conflict necessary for a grant of certiorari.

Third, as discussed in section II.C. below, the remedies issue referenced in the Sixth Circuit's dictum, and relied on by Petitioner exclusively in asserting a circuit conflict, is entirely irrelevant to the outcome of this case. Section 301 mandates a comparison of the state law right with the five § 106 rights, not a comparison of state law remedies with the remedy provisions of the Copyright Act. This case thus fails to raise the issue on which Petitioner relies in requesting certiorari.

A. The Sixth Circuit Correctly Held that § 301 Does Not Preempt Implied-in-Fact Promises to Pay for the Use of Copyright Subject Matter.

The Sixth Circuit correctly interpreted and applied § 301 of the Copyright Act. The analysis starts with the text of the statute.

Section 301(a) preempts only legal or equitable rights under state law "that are equivalent to any of the exclusive rights . . . *specified by Section 106*." 17 U.S.C. § 301(a) (emphasis added). Section 106 grants the copyright owner five exclusive rights: the rights to (1) reproduce, (2) prepare derivative works from, (3) distribute, (4) perform, and (5) display the copyrighted work. 17 U.S.C. § 106(1)-(5). If a state law claim is based on violation of a legal or equitable right that is not equivalent to one of § 106's specified quintet of rights, § 301 does not preempt it. 17 U.S.C. § 301(b)(3). Thus, if a state law claim involves a right that is not equivalent to the rights of reproduction, adaptation, distribution, performance, or display, it is not preempted.

To determine whether a legal or equitable right asserted under state law is equivalent to one of the quintet of rights specified by § 106, the courts use an "extra element" test:

> Equivalency exists if the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights. Conversely, if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display in order to constitute a state-created cause of action, there is no preemption, provided that the extra element changes the nature of the

> action so that it is qualitatively different from a copyright infringement claim.

Pet. App. 14a (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); *Rosciszewski v. Arete Assocs., Inc.*, 1 F.3d 225, 230 (4th Cir. 1993); and *Nat'l Car Rental Sys.*, 991 F.2d at 431). *Accord Computer Assocs. Int'l, Inc. v. Altai Inc.*, 982 F.2d 693, 716 (2d Cir. 1992); *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973, 976-77 (9th Cir. 1987), *overruled on other grounds by Fogerty v. Fantasy, Inc.*, 570 U.S. 517 (1994); 1 *Nimmer* § 1.01[B], at 1-14 - 1-15.

The Sixth Circuit concluded correctly that, under the parties' implied-in-fact contract, Respondents' contractual right to payment cannot be abridged by an act that, in and of itself, infringes one of § 106's exclusive rights. Pet. App. 15a. The only act that abridges the contractual right to payment—failure to pay—does not infringe the § 106 rights, and the only acts that infringe the § 106 rights—reproduction, adaptation, distribution, performance, or display of the work—do not abridge the contractual right to payment. Unlike a copyright claim, which involves an allegation that the infringer violated a § 106 right by "using" the copyrighted work without authorization, a contract claim involves authorized use and a failure to make contractual payment: "It is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages." Pet. App. 15a. Thus, Respondents' contract right is not equivalent to the quintet of rights specified by § 106 and is not preempted. *Id.*

The Sixth Circuit also concluded correctly that Respondents' contract claim requires an extra element "in addition to the acts of reproduction, performance, distribution or display" specified by § 106. Pet. App. 15a. "The extra element is the promise to pay."

Id. And the court correctly recognized that the promise to pay makes the contract claim qualitatively different from a copyright claim: "The qualitative difference includes the requirement of proof of an enforceable promise and a breach thereof which requires, *inter alia*, proof of mutual assent and consideration, as well as proof of the value of the work and appellee's use thereof." *Id.*

In sum, the Sixth Circuit correctly construed § 301 of the Copyright Act and held that a contractual right to be paid for use of a work is not equivalent to any of the exclusive § 106 rights—the rights to reproduce, adapt, distribute, perform, or display the work. No other court of appeals has opined on this issue. There is thus no conflict between the Sixth Circuit and any other court of appeals on the issue actually presented and decided in this case.

B. Petitioner's Alleged Conflict Rests Solely on Sixth Circuit Dictum.

Inconsistency in courts of appeals' dicta, rather than a direct and intolerable conflict between their holdings, does not warrant a grant of certiorari. Robert L. Stern, et al., *Supreme Court Practice* 167 (7th ed. 1993) (To justify certiorari, "there must be a real and 'intolerable' conflict . . ., not merely an inconsistency in dicta."). And, here, Petitioner's alleged conflict rests solely on dictum in the Sixth Circuit's opinion below.

After holding that Respondents' contractual right to payment is not equivalent to § 106's quintet of rights, and is thus not preempted, the Sixth Circuit in dictum compared Copyright Act and Michigan contract remedies and indicated they too are not equivalent, a fact that "further reflected" the qualitative difference between the state contract and federal statutory rights. Pet. App. 15a-16a. Even a cursory reading of the Sixth Circuit's opinion

demonstrates that its passing reference to remedies is immaterial to the core holding. The court's focus is the "extra element" test, through which the court concludes that the contractual promise to pay makes Respondents' implied-in-fact contract claim qualitatively different than a copyright claim. *Id.* at 15a. The court then "piles on" its analysis, noting the qualitative difference created by the promise to pay is "*further* reflected" by the difference in remedies. *Id.* (emphasis added). But if one were to delete entirely the two-paragraph remedy discussion, *id.* at 15a-16a, the opinion would read seamlessly and reach the same conclusion.

The Sixth Circuit underscored the immateriality of its remedies discussion less than two months later in *Murray Hill Publications, Inc. v. ABC Communications, Inc.*, 264 F.3d 622 (6th Cir. 2001). Distinguishing the contract here from one the court found preempted in *Murray Hill*, the Sixth Circuit explained explicitly why the contract in this case is not preempted:

> The contract claimed in *Taco Bell* included the extra element of a promise to pay, requiring proof of an enforceable promise, which in turn would require proof of the mutual assent of the parties, and a breach of that promise.

264 F.3d at 638. The *Murray Hill* opinion does not mention remedies at all.

Petitioner points solely to the remedies dictum in the Sixth Circuit's opinion below as creating the circuit split in this case. *See* Pet. 9-11. The asserted conflict thus provides an insufficient basis on which to grant certiorari. Petitioner, of course, attempts to bootstrap the remedies discussion into something more than bare dictum, claiming if the Sixth Circuit had concluded that § 504 of the Copyright Act allows one "to recover the reasonable value of

the use of the work, it could not have reached the result it did." *Id.* at 11. But, again, a simple reading of the Sixth Circuit opinion belies that claim. The Sixth Circuit's remedies discussion did not drive the ultimate holding that a contractual promise to pay is not equivalent to the rights specified by § 106. Accordingly, there is no merit in the primary basis on which Petitioner claims certiorari should be granted.

C. The Remedies Issue Is Entirely Irrelevant to § 301 Preemption—the Issue Actually Presented by this Case.

Petitioner's discussion of contract and copyright remedies is a complete red herring because § 301 preemption analysis requires a comparison of rights, not remedies. Petitioner's remedies discussion is therefore entirely irrelevant to the preemption issue presented by this case. That preemption issue, as previously set forth, is one of first impression, and there is thus no circuit split justifying a grant of certiorari.

The Copyright Act itself makes clear that rights, not remedies, must be compared. Section 301's text requires a comparison of state law rights to § 106's exclusive rights; it does not require or even suggest a comparison of state law remedies to the remedies specified by §§ 502 to 505 of the Copyright Act. The mandated comparison is between the right being asserted under state law, on the one hand, and the quintet of rights specified by § 106 of the Copyright Act, on the other hand. *See Rodrigue v. Rodrigue*, 218 F.2d 432, 439 (5th Cir. 2000) ("[T]he preemptive effect of federal copyright law extends only to this explicitly-enumerated, lesser-included quintet [of rights found in § 106]."). Remedies are immaterial. *See Nat'l Car Rental Sys.*, 991 F.2d at 435 ("We cannot conclude that this [breach of contract] action is preempted simply because the parties' contract provides a remedy for breach identical to a remedy provided in copyright."). And the quintet of

rights specified by § 106 clearly do not deal with the commercial exploitation of a work, the subject matter of this case. *See Rodrigue*, 218 F.3d at 440 ("Notably absent from the Copyright Act's exclusive sub-bundle of five rights [specified by § 106] is the right to enjoy the earnings and profits of the copyright.").[3]

Completely ignoring § 301's text, Petitioner fabricates from whole cloth a brand new preemption test, citing the opinion below and four cases for the proposition that the "extra element" analysis "requires a comparison of the state and federal *remedies* to enforce the rights at issue." Pet. 8 (emphasis added). But the Sixth Circuit's opinion does not say remedies are to be compared, and neither do the cited cases. They each follow the text of § 301 and compare the state law *rights* to the quintet of *rights* specified by § 106. *See* Pet. App. 14a ("Equivalency exists if the *right* defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive *rights*." (emphasis added)). *Accord Rosciszewski*, 1 F.3d at 229; *Nat'l Car Rental Sys.*, 991 F.2d at 431; *Altai*, 982 F.2d at 716; *Del Madera*, 820 F.2d at 977.

Petitioner creates its unprecedented test for § 301 preemption, comparing state and federal remedies rather than state and § 106 rights, as a bridge to reach an issue entirely irrelevant to this case—whether § 504 of the Copyright Act permits actual damages for copyright infringement to be measured by the reasonable value of

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[3]The Fifth Circuit clarified this point in its *Rodrigue* opinion: "[Section] 106[ ] is a finite bundle of but five fundamental rights, being the exclusive rights of reproduction, adaptation, publication, performance, and display. Notably, none of these rights either expressly or implicitly include the exclusive right to enjoy income or any of the other economic benefits produced by or derived from copyright." 218 F.3d at 435.

an infringer's use of a work. Pet. 9-11 It then asserts that the Sixth Circuit's dictum suggesting that actual damages under § 504 cannot be measured by the value of the infringer's use is in conflict with other courts of appeals' holdings on that issue, citing as its lead case *Davis v. Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001). Pet. 9. The only appropriate response to this asserted conflict, however, is "so what?" Section 301 requires a comparison of rights, not remedies, and no court of appeals has held that a contractual right to be paid is equivalent to any of the exclusive § 106 rights. There simply is no conflict among the courts of appeals on the issue actually presented by this case and decided by the Sixth Circuit.

Cases from the Seventh Circuit illustrate that § 504 remedies are irrelevant to § 301 preemption. In *Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357 (7th Cir. 1985), cited by Petitioner in support of its asserted circuit split, Pet. 10, the Seventh Circuit concluded that value of the use is a permissible way to calculate § 504 damages in a copyright infringement action. The Seventh Circuit has also held, however, that § 301 does not preempt state law contracts because contracts do not create exclusive rights, but rather affect only their parties. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454-55 (7th Cir. 1996). Thus, in the Seventh Circuit, a contract claim seeking the reasonable value of the defendant's use of a work will not be preempted under § 301, even though, in a copyright infringement claim, actual damages under § 504 may include the reasonable value of the infringer's use. Furthermore, Respondents' state law implied-in-fact contract in this case would clearly *not* be preempted in the Seventh Circuit, notwithstanding *Deltak* and its progeny.

Accordingly, while it is true that courts and commentators have debated whether the reasonable value of a use should be implied as

a measure of actual damages under § 504[4], this academic debate does not affect the outcome in this case or the Sixth Circuit's holding that Respondents' right to contractual payment is not equivalent to the quintet of rights specified by § 106. Moreover, because its conclusion regarding remedies is pure dictum, if the Sixth Circuit were itself presented with the question of whether the reasonable value of an infringer's use is a possible measure of § 504 damages, it may very well reach the same conclusion as its sister circuits. The issue actually decided by the Sixth Circuit and the issue discussed by Petitioner simply have nothing to do with each other.[5]

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[4]*Compare Bus. Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 406-07 (2d Cir. 1989) (denying "use" damages), *and* 4 *Nimmer* § 14.02[A], at 14-13 to 14-19 (advocating for result reached in *Freedonia*), *with Deltak*, 767 F.2d at 360-61 (allowing "use" damages), *and Davis*, 246 F.3d at 172 (agreeing with *Deltak*). The Sixth Circuit noted the debate here by contrasting *Freedonia* and Nimmer with *Deltak*. Pet. App. 16a & n.5.

[5]The illogical outcomes that result when applying Petitioner's "comparison of the remedies" test demonstrates its irrelevancy to proper preemption analysis. First, imagine an express author/publisher contract that provides an injunctive remedy in case of breach. Because that remedy is specified by § 502 of the Copyright Act, the contract will be preempted according to Petitioner. Next, imagine a lawsuit based on a state law copyright act that provides fixed damages of $100,000 for every violation of the act. Because such a remedy is not specified by §§ 502 to 505 of the Copyright Act, the cause of action will not be preempted. Such results are the natural application of Petitioner's unfounded test.

III. THE PETITION CONTAINS MISSTATEMENTS OF FACT AND LAW.

The Petition contains numerous misstatements of fact and law, in addition to its misleading discussion of remedies and § 301 preemption. Examples include the following.

First, Petitioner states that "the act alleged to have violated [Respondents'] rights under state law was Petitioner's improper use of material within the subject matter of the Copyright Act." Pet. 11. But that is not Respondents' claim; Respondents' claim is that the contractual bargain was authorized use in exchange for a promise to pay. What is at issue is Petitioner's failure to pay under the contract, as the Sixth Circuit held: "It is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages." Pet. App. 15a.

Second, Petitioner states that the "rights created by [express] agreements . . . arise from a meeting of the minds of the parties and are not equivalent to the exclusive rights granted by the Copyright Act." Pet. 12. But Petitioner fails to acknowledge that the parties' implied-in-fact contract similarly arises from a meeting of the minds. Pet. App. 15a (An "implied in fact [contract] . . . 'does not exist, unless the minds of the parties meet.'" (quoting *Cascaden v. Magryta*, 225 N.W. 511, 512 (Mich. 1929)).

Third, Petitioner states that Respondents "are not seeking to vindicate a specific right to which assent was manifested in conduct rather than words." Pet. 13. But Respondents are seeking to vindicate a specific right—a contractual right to payment—to which Petitioner's assent was manifested in conduct. Respondents' implied-in-fact contract requires a meeting of the minds. There is thus "an actual promise to pay for [Respondents'] creative work." Pet. App. 15a.

Finally, Petitioner claims that an implied-in-fact contract lacking an express price term is the same as a contract implied-in-law, and, thus, "the right claimed by respondents is no different from a right to reasonable compensation under an implied-in-law contract or 'quasi contract.'" Pet. 13. But Petitioner errs here for several reasons. First, the statement ignores the long-standing distinction between implied-in-law and implied-in-fact contracts. *See Baltimore & Ohio R.R. v. United States*, 261 U.S. 592, 597 (1923) (An implied-in-law contract is a "fiction of law," while an implied-in-fact contract is "founded upon a meeting of minds . . . inferred, as a fact, from conduct of the parties.").

Second, by definition, an implied-in-fact contract does not have express terms. It is thus well-settled that a promise can be "inferred wholly" from conduct, Restatement (Second) of Contracts § 4, including a promise of compensation, 4 *Nimmer* § 16.05[E], at 16-44.1.

Third, as the Sixth Circuit recited, Pet. App. 19a-20a, Professor Nimmer opines it is the mutual expectation of compensation, not an express price term, that distinguishes implied-in-fact from implied-in-law contracts. And it is this mutual expectation of compensation that removes contracts implied-in-fact from § 301 preemption. *See* 1 *Nimmer* § 1.01[B][1][g], at 1-38 n.166.

Fourth, as stated in section I.B. above, Petitioner received a written licensing proposal from Respondents and thereafter used Respondents' concept and ideas. A jury will thus be entitled to find that Petitioner is bound by the express price terms contained in Respondents' written proposal.

Finally, contrary to Petitioner's suggestions, Pet. 13, 14, the specific terms of an implied-in-fact contract are not derived by default from a state court judgment of fairness, which is the basis

of quasi-contract recovery. Rather, the terms are derived by the finder of fact from evidence of the parties' course of dealing, including any express negotiations; the surrounding circumstances, including industry customs and practices serving as the context for the parties' mutual expectation of compensation; and expert testimony regarding the value of the matter at issue. Such evidence proves the specific, in fact terms of the parties' agreement.

IV. PETITIONER'S POLICY ARGUMENTS DO NOT WITHSTAND SCRUTINY.

Petitioner's policy arguments regarding national uniformity in copyright law are premised on two erroneous assumptions: (1) implied-in-fact contracts arising under state law "unsettle commercial expectations," "impair the free exchange of creative ideas," Pet. 17, and threaten "the predictability and certainty" of "those who participate in the exchange of ideas and expression," *id.* at 16; and (2) state law implied-in-fact contracts involving copyright subject matter are easy claims to prove, creating liability based on "even casual conversations or explorations," *id.* at 17.

History disproves the first assumption. The Copyright Act became effective in 1978 and, since that date, no court of appeals has held that § 301 preempts a state law implied-in-fact contract.[6] Such contracts have existed under state law concurrently with the Copyright Act for over 22 years. Yet there has been no unpredictability or uncertainty in the exchange of ideas and

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[6]The first district court preemption of an implied-in-fact contract did not occur until 1997. *See Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816 (C.D. Cal. 1997) (confusing implied-in-fact with implied-in-law contracts).

expression, commercial expectations have not become unsettled, and the free exchange of creative ideas has not been impaired.

Litigation realities disprove the second assumption. To prevail on a claim for breach of an implied-in-fact contract involving ideas, a "plaintiff must prove a specific series of rigid facts that are difficult to prove even in the best of cases." Glen L. Kulik, *Copyright Preemption: Is This the End of Desny v. Wilder?*, 21 Loy. L.A. Ent. L.J. 1 (2000). In the real world, implied-in-fact contracts arise only under limited circumstances, *see* 4 *Nimmer* § 16.05 (concluding that an implied-in-fact promise to pay for use of an idea usually requires direct solicitation by the defendant); *accord Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1140-41 (Alaska 1996), such as those present here, where Petitioner solicited Respondents' ideas for one year pursuant to a mutual understanding of compensation.

The Sixth Circuit's recent ruling in *Murray Hill* demonstrates the difficulty in proving an implied-in-fact contract. There, the Sixth Circuit distinguished the facts of the present case and preempted the plaintiffs' claim because the extra element of a contractual promise to pay was missing. The facts showed merely a quasi-contract claim:

> We think that [plaintiffs'] allegations that WJR knew of [plaintiffs'] intention to be paid for the use of [plaintiffs'] work is not an allegation that WJR promised to pay, and does not purport to raise a claim of an implied-in-fact contract. *A claim that one party was aware of the expectations of the other is a far cry from a claim that the*

> *first party agreed to a course of conduct that would fulfill those expectations.*

Murray Hill, 264 F.3d at 638 (emphasis added).[7]

The Sixth Circuit's decision here merely confirms the legal *status quo* that has existed for over 22 years—implied-in-fact contracts involving commercial exploitation of copyright subject matter are not preempted by § 301 of the Copyright Act. The decision does not threaten or interfere with the purposes and objective of the Copyright Act. Accordingly, policy considerations do not warrant a grant of certiorari in this case.

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[7]Petitioner's attempt to drive a wedge between Michigan and Illinois law regarding the proof required for an implied-in-fact contract, Pet. 17 n.5, is unavailing. The 50-year old case cited by Petitioner, *Mitchell Novelty Co. v. United Mfg. Co.*, 94 F. Supp. 612 (N.D. Ill. 1950), does not involve a contract implied-in-fact. Moreover, it is clear that Illinois courts, like those in Michigan and the other 48 states, will recognize an implied-in-fact contract even where the parties have not expressly agreed to a compensation term. *See, e.g., Ekl v. Knecht*, 585 N.E.2d 156, 162 (Ill. App. 1991) (finding an implied-in-fact contract despite no express agreement as to price).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

TACO BELL CORPORATION,

Petitioner,

v.

WRENCH LLC, JOSEPH SHIELDS, AND THOMAS RINKS,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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REPLY BRIEF OF PETITIONER

Petitioner Taco Bell Corporation's ("Taco Bell") petition for certiorari sets forth a clear, substantial, and mature conflict between the Sixth Circuit and the Second, Seventh, Eighth, Ninth, and Tenth Circuits on an important question of federal law: namely, whether the Copyright Act secures to the copyright holder the right to be paid the reasonable value of another's unlawful use of his work. See Pet. i, 8-11. The Sixth Circuit held that the Copyright Act does not do so, and accordingly ruled that section 301 of the Act, 17 U.S.C. § 301, does not preempt an equivalent state-law right claimed under an implied-in-fact contract. See Pet. App. 15a, 20a. Respondents' argument that the Sixth Circuit holding that is the basis of the circuit split is dictum that is irrelevant to section 301 preemption analysis is unfounded. Indeed, the Sixth Circuit itself rejected that very argument in staying its mandate pending disposition of this petition. The question presented is of fundamental significance both to cases brought directly under the Copyright Act and those asserting preemption under the Act, is cleanly presented by the decision below, and warrants immediate resolution by this Court.

Respondents do not, and cannot, contest the existence of the 5-1 split of authority on the question presented. The Sixth Circuit squarely held that the Copyright Act does not provide for "damages for the reasonable value of the defendants' use of the work." Pet. App. 16a. Five other circuits expressly and unequivocally hold to the contrary. See *Davis* v. *Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001); *Kleier Adver., Inc.* v. *Premier Pontiac, Inc.*, 921 F.2d 1036, 1039-40 (10th Cir. 1990); *Deltak, Inc.* v. *Advanced Sys., Inc.*, 767 F.2d 357, 360-61 (7th Cir.1985); *Sid & Marty Krofft Television Prods., Inc.* v. *McDonald's Corp.*, 562 F.2d 1157, 1174 (9th Cir. 1977); *Nucor Corp.* v. *Tennessee Forging Steel Serv., Inc.*, 513 F.2d 151, 152, 153 & n.3 (8th Cir. 1975). See Pet. 8-11.

Respondents desperately attempt to avoid this conflict of authority by reframing the question presented as whether "§ 301 . . . preempt[s] implied-in-fact contracts containing a promise to pay for the use of copyright subject matter." Opp. 8; see also *id.* at i, 6. They then devote substantial argument to knocking down a strawman, contending that their reframed question is not the subject of a circuit conflict and is otherwise unworthy of this Court's review. See *id.* at 8-11. But theirs is simply not the question presented by the holding below, and indeed Taco Bell has never argued, to the Sixth Circuit or this Court, that all implied-in-fact contracts are preempted. To the contrary, Taco Bell's position (unacknowledged by respondents) is that "the Copyright Act does not forbid enforcement under state law of the specific terms of licensing agreements or similar contracts," and "[w]here the enforcement of specific contract terms is at issue, it will be immaterial whether the contract is express or implied by the actions of the party, since these are simply different ways of proving mutual assent and consideration." Pet. 12.

The issue presented for this Court's review arises from the Sixth Circuit's interpretation of the Copyright Act that is the necessary predicate of its ruling that respondent's implied-in-fact contract was not preempted under section 301. Adopting Taco Bell's position, and following leading judicial and scholarly authority, the district court had held that not all claims of express or implied contracts are preempted, but preemption "depends upon the precise contract right being asserted." Pet. App. 50a. In this case, respondents allege an implied-in-fact contract without a price term, and assert a state-law right to be paid the reasonable value (as determined by a jury or court) of the use of their work. This state-law right is preempted because it is equivalent to the copyright holder's right under the Copyright Act to be paid the reasonable value (as determined by a jury or court) for the infringer's use of a work (i.e., reproduction, adaptation,

publication, and display of the work, 17 U.S.C. § 106). As the district court held:

> The rights Plaintiffs are asserting are equivalent to rights under the Copyright Act because they are based upon Taco Bell's reproduction or use of Plaintiff's ideas for creation of derivative works. A promise not to use another's ideas and concepts without paying for them "is equivalent to the protection provided by section 106 of the Copyright Act."

Pet. App. 50a-51a (quoting *Del Madera Props.* v. *Rhodes & Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987), *overruled on other grounds, Fogerty* v. *Fantasy, Inc.*, 570 U.S. 517 (1994)).

The Sixth Circuit rejected the district court's preemption analysis solely based on its conclusion that "the right to be paid for the use of the work is not one of th[e] rights" granted by section 106, noting that "[t]he remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work." Pet. App. 15a, 16a. The Sixth Circuit reiterated this holding at the conclusion of its preemption analysis, stating that there is no preemption because the expectation of compensation "is an element not envisioned by § 106." *Id.* at 20a. Thus, the Sixth Circuit directly held that the respondents' claimed state-law right to be paid the reasonable value of the use of their work was not preempted because the Copyright Act did not provide for such compensation. It is this essential and explicitly stated predicate of the Sixth Circuit's preemption ruling—that the Copyright Act does not entitle the copyright holder to be paid the reasonable value of the infringer's use—that is the issue presented for this Court's review, and that is the subject of the uncontested circuit split.

Respondents repeatedly strain to dismiss the Sixth Circuit's Copyright Act holding as "dictum" that is irrelevant to the preemption analysis. See, *e.g.*, Opp. 1, 7, 14, 17-18, 21, 22.

This is wishful thinking. The text and logic of the Sixth Circuit's opinion in overruling the district court, much of which respondents ignore, belie this assertion. Moreover, respondents' principal reason why the Sixth Circuit's holding must be regarded as dictum—that analysis of remedies under the Copyright Act is allegedly "entirely irrelevant" to preemption analysis, see *id.* at 19, 20—betrays a misunderstanding of the law.

Respondents accuse petitioner of "fabricat[ing] from whole cloth a brand new preemption test" that is foreign to the two-part test uniformly applied by the courts of appeals in determining section 301 preemption. Opp. 20. That charge is baseless. As stated in the petition (Pet. 8-9), there is no dispute that the proper test for preemption under section 301 is whether "the work is within the scope of the 'subject matter of copyright'" and "the rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright as set out in 17 U.S.C. § 106." *Ehat* v. *Tanner*, 780 F.2d 876, 878 (10th Cir. 1985). Because the state-law right need not be identical but only "equivalent" to a right granted by section 106, 17 U.S.C. § 301(a), courts will find equivalency under the second prong of this test if "the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights." Pet. App. 14a.

Contrary to respondents' claims that remedies are entirely irrelevant to preemption analysis, the standard approach for determining the equivalency of state and federal rights compares the *remedies* that enforce those rights, as the Sixth Circuit recognized:

> [I]f an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display *in order to constitute a state-created cause of action*, there is no preemption, provided that the extra element *changes the nature of the action* so that it is

> qualitatively different from a copyright infringement claim.

Pet. App. 14a. (emphasis added); *see also id.* at 19a-20a (contrasting causes of action for breach of implied-in-fact versus implied-in-law contracts).[1]

Here, even though respondent's implied-in-fact contract claim requires proof of an "extra element" of a promise to pay, the state- and federal-law rights are equivalent because "the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights," and thus the extra element does not "change the

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[1] The cases on which respondents rely in arguing that remedies are irrelevant to section 301 preemption analysis do not stand for that proposition. Respondents invoke the statement in *Rodrigue* v. *Rodrigue*, 218 F.3d 432, 440 (5th Cir. 2000), *cert. denied*, 121 S. Ct. 1227 (2001) that "'the right to enjoy the earnings and profits of the copyright'" is not among the quintet of rights protected in section 106. Opp. 20. However, *Rodrigue* did not address whether a copyright owner had a federal right to receive compensation for his or her work under the Copyright Act but, rather, whether a state could subject that compensation to community property rules. 218 F.3d at 439-40. Similarly, respondent's citation to *National Car Rental Sys., Inc.* v. *Computer Assocs. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993), is inapposite. Opp. 20. *National Car* followed the exact same test as the Sixth Circuit, determining equivalency of state and federal rights by comparing the remedies for enforcing those rights. *See* 991 F.2d at 431 (determining whether the state breach-of-contract "cause of action [is] qualitatively different from an action for copyright [infringement]"). That case concerned an express contractual restriction prohibiting National Car from using copyrighted software to process data for third parties. *Id.* at 430, 433. The Eighth Circuit held that this specific restriction created a right distinct from the exclusive rights granted by section 106, and thus "constitute[d] an extra element that makes this cause of action qualitatively different from one for copyright." *Id.* at 433. Having found the causes of action to be qualitatively different, that court held that it was irrelevant that the relief available under the contract for breach—such as damages and return or destruction of the licensed software—was identical to that available under the Copyright Act. *Id.* at 435.

nature of the action." Under the Copyright Act, an infringer's use of the copyrighted work entitles the rights holder to be paid the reasonable value of that use. Under the claimed implied-in-fact contract, Taco Bell's use of respondents' work entitles respondents to be paid the reasonable value of the use of the work.[2] The "extra element" of a promise to pay merely narrows the right protected by the Copyright Act—but it does not change the fact that the same essential act that violates state law likewise violates the rights preserved under the Copyright Act. Without its erroneous conclusion that the Copyright Act (unlike respondents' implied-in-fact contract claim) does not permit recovery of damages for the reasonable value of works used, the Sixth Circuit simply could not have concluded that the respondents' claim survived Section 301 preemption. As such, the clear conflict created by the Sixth Circuit is far from dictum: it is a necessary holding that should be reversed.

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[2] Respondents' assertion (Opp. 23) that Taco Bell has mischaracterized their implied-in-fact contract claim is likewise confused. Respondents argue that it is not improper use but Taco Bell's failure to pay that gives rise to their claim under the alleged implied-in-fact contract. *Id.* But that is not so, and underscores the difference between a contract (express or implied) with a price term, and (as here) an implied-in-fact contract without such a term. There was no determinate price that Taco Bell could be said to have "fail[ed] to pay," *id.*, under the alleged contract. Regardless of whether Taco Bell had offered any payment, or how large such payment might be, respondent would have a state-law right to a jury determination of the reasonable value of Taco Bell's use of the work. In other words, as the district court properly held, Pet. App. 50a-51a, it is Taco Bell's use that gives rise to a cause of action for damages, so long as the respondents contend that the use was improper because contrary to the contract (*i.e.*, not adequately compensated). As such, respondents' implied-in-fact contract claim is more similar to a implied-in-law (or quasi contract) than it is to an express contract, and, like a quasi contract, is preempted. Pet. 13 (citing, *inter alia*, 3 Arthur Linton Corbin, *Corbin on Contracts* § 566, at 307-08 (1960); *id.* at 31 n.18 (Spring Cum. Supp. 2001)).

Moreover, the Sixth Circuit itself rejected respondents' very arguments in granting Taco Bell's application for a stay of the mandate pending the petition for certiorari. A court of appeals may stay its mandate only upon a showing "that the certiorari petition would present a substantial question and that there is good cause for a stay." Fed. R. App. P. 41(d)(2)(A); see also 6th Cir. R. 41(a) (noting that stay may be granted if "there is a showing, or an independent determination by this Court, that a petition for writ of certiorari would present a substantial question and that there is good cause for a stay"). Taco Bell sought a stay on the grounds that the 5-1 circuit split on whether the Copyright Act entitled the rights holder to be paid the reasonable value of the infringer's use is a substantial question on which this Court was reasonably like to grant certiorari. Respondents opposed the stay with the exact arguments they raise here: that the Sixth Circuit's discussion of Copyright Act remedies was dictum, and that remedies are irrelevant to preemption analysis. The Sixth Circuit necessarily rejected those arguments in finding that the question to be presented by Taco Bell's petition for this Court's review was a substantial one warranting the stay. It would not, and could not, have granted a stay based on dictum that had no bearing on section 301 preemption.[3]

Thus, far from a "passing reference to remedies," Opp. 7, the Sixth Circuit's incorrect analysis of the remedies

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[3] The Sixth Circuit's recent decision in *Murray Hill Publications, Inc.* v. *ABC Communications, Inc.*, 264 F.3d 622 (6th Cir. 2001), does not alter the centrality of its interpretation of the Copyright Act in this case. In *Murray Hill*, the Sixth Circuit held that the complaint there (unlike the complaint in this case) failed to allege an implied-in-fact contract because no enforceable promise to pay was alleged. *Id.* at 638. Thus, the *Murray Hill* plaintiff was deemed to have alleged only an implied-in-law contract, which is preempted. *Id.* Because *Murray Hill* does not revisit the analysis of preemption of implied-in-fact contracts, it hardly "underscore[s] the immateriality of [the Sixth Circuit's] remedies discussion" in this case, as respondents contend. Opp. 18.

available under the Copyright Act was both critical to its conclusion that respondents' implied-in-fact contract claim is not equivalent to the rights under the Copyright Act and contrary to the holdings of five other courts of appeals. This Court should grant certiorari in order to resolve the split of authority and to restore the uniformity and clarity that is both necessary and congressionally mandated in the area of copyright law.

Nothing in the posture of this case militates against certiorari. Respondents point out that this case is not a final judgment because the Sixth Circuit remanded the case for trial. But this Court has jurisdiction to review "[c]ases in the courts of appeals," and not just final judgments. 28 U.S.C. § 1254; cf. *id.* § 1257 (stricter rule limiting this Court's review of state court decisions to "[f]inal judgments or decrees"). In cases arising from the federal courts of appeals, it has long been this Court's rule that where "there is some important and clear-cut issue of law that is fundamental to the further conduct of the case and that would otherwise qualify as a basis for certiorari, the case may be reviewed despite its interlocutory status." Robert L. Stern et al., *Supreme Court Practice* 196 (7th ed. 1993) (citing cases). Here, there is no prudential reason to await a final judgment; the lone federal issue in the case was finally determined by the decision below, and it is only state law issues that remain to be tried. Moreover, reversal of the ruling below would fully dispose of this case, obviating the need for any further proceedings.[4]

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[4] Respondents falsely contend that they will also be able to try an alternative claim that Taco Bell entered into a contract *with* a price term. According to respondents, they submitted a written proposal to Taco Bell with a price term that was never explicitly rejected, and "the jury will be entitled to find that Petitioner became bound by the specific terms of this written proposal" by its conduct. Opp. 12-13, 24. But the alternative of seeking recovery based on an express contract is not available to respondents for several reasons. First, respondents have never asserted a claim founded on Taco Bell's acceptance of the aforementioned written

The important question of federal law presented is thus fully ripe for review.

The disagreement over whether the Copyright Act secures the right of a copyright holder to be paid damages in the reasonable value of the infringer's use of the work is no longer simply a matter of "academic debate," as respondent contends. Opp. 22. There is now a square and mature conflict in the circuits on this point. Because the nature of copyright remedies is intrinsically important, the conflict must be addressed now to avoid forum shopping. If the Sixth Circuit decision stands, any plaintiff seeking use-damages for copyright infringement will now turn to the district courts of other circuits where venue is proper. Conversely, plaintiffs alleging implied-in-fact contract claims that wish to avoid preemption will bring their claims in the courts within the Sixth Circuit if venue can be established.

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proposal or on any other express contract; in the original and amended complaints, only an *implied* contract has been alleged. *See Wrench LLC* v. *Taco Bell Corp.*, 36 F. Supp. 2d 787, 788 (W.D. Mich. 1998) (detailing respondents' eight claims, including implied-in-fact contract and unjust enrichment claims but not an express contract claim). Second, although they invoke the statement in the Sixth Circuit opinion that the written proposal was never "explicitly reject[ed]," Pet. App. 4a, *cited in* Opp. 13 n.2, respondents admitted in discovery that their written proposal was not accepted by Taco Bell. *See* Pet. App. 32a (citing deposition of respondents' agent, Scanlan, at 202-04, to show that "Taco Bell did not accept the proposal"). Third, and most fundamentally, respondents conceded before the district court that their claimed implied-in-fact contract did not include agreement on a price term. *See id.* at 39a (noting, in response to Taco Bell's argument that no agreement was reached as to typical contract terms such as "price, duration, scope of use, and exclusivity," that "*[p]laintiffs agree that no agreement was reached on the terms that would normally be included in a licensing agreement*, but argue that their understanding with Alfaro that Taco Bell would pay Plaintiffs for the use of the Psycho Chihuahua materials if Taco Bell decided to use the Psycho Chihuahua idea is, by itself, sufficient to support an implied in fact contract") (emphasis added).

The circuit split on the question presented alone warrants certiorari. But the importance of the circuit split is underscored by the adverse effect of the decision below on the policies of the Copyright Act. The Sixth Circuit's broad and erroneous decision threatens the national uniformity that Congress has ordered in Section 301, and undermines the predictability and certainty that Congress sought to give participants in the free interchange of ideas. See Pet. at 14-17.[5] It should be corrected.

CONCLUSION

The petition for a writ of certiorari should be granted.

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[5] Respondents attempt to minimize the importance of the question presented by arguing that implied-in-fact contract claims are difficult to prove. Opp. 26-27. That argument is unavailing. First, the fact that plaintiffs may not always be able to prove the claimed implied-in-fact contract is irrelevant; it is the costs of litigating a claim that will often survive summary judgment that will chill a company's willingness to engage in the free exchange of ideas with creators. Second, because all other circuits that have addressed the question have concluded that the Copyright Act grants the right to compensation for use of copyright subject matter, those courts would find an otherwise adequate implied-in-fact contract claim to be preempted under Section 301, and thus would dismiss it. As such, defendants would be forced to fight implied-in-fact contract claims involving copyright subject matter in one circuit, but not in any others. The fact that defendants may ultimately, at the end of the battle, successfully defeat such claims on the merits is scant protection against the confusion and costs that the Sixth Circuit's decision has created.

Respectfully submitted,

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